DAYLIGHT
RESOURCES TRUST

TSX: DAY.UN

2009 YEAR END REPORT

Q4 For three months and year ended December 31, 2009

www.daylightenergy.ca

DAYLIGHT RESOURCES TRUST REPORTS YEAR END 2009 FINANCIAL AND OPERATING RESULTS – RESERVE ADDITIONS REPLACE 600% OF PRODUCTION AS CONVERSION TO GROWTH ORIENTED E&P APPROACHES

MESSAGE TO UNITHOLDERS

Daylight Resources Trust ("Daylight" the "Trust" or the "Company") is pleased to report financial and operating results for the three months and year ended December 31, 2009 ("Q4 2009" and "2009" respectively).

HIGHLIGHTS

- Achieved record production of 38,197 barrels of oil equivalent ("boe") per day during Q4 2009, an increase of 75% over Q4 2008.
- Replaced 600% of production with total Proved plus Probable ("2P") reserve additions of 58.9 million boe, including 20.4 million boe added through Daylight's organic drilling program, increasing 2P reserves from 70 to 119 million boe.
- Recently hedged 45,000 GJ per day of natural gas at Cdn$5.69 per GJ (Cdn$6.01 per mcf) for the period April 1, 2010 to March 31, 2011.

KEY EVENTS DURING 2009

Daylight achieved significant growth in production, reserves and the creation of future drilling inventory during 2009. Daylight positioned itself as one of the premiere next generation intermediate growth companies through a series of pivotal transactions and key drilling events during 2009:

- Acquisition of Highpine Oil & Gas Limited ("Highpine") – one of the most cost effective oil transactions in Western Canada during 2009, rebalancing Daylight's production mix towards oil.
- Strategic acquisition adds to West Central core area.
- Convertible debenture financing raised $172 million.
- Increased bank credit facilities to $500 million.
- Commenced Cardium horizontal oil drilling at Pembina.

Based on the above results, our strong balance sheet and our depth of diverse opportunities across the Deep Basin of Alberta and Northeast British Columbia, Daylight has never been better positioned for conversion to a growth oriented intermediate producer. Our unrisked, unbooked net resource play drilling inventory stands between 1,000 and 1,800 locations, representing a multi-billion dollar growth opportunity. The ramp up of our capital program during Q4 2009 continued to validate and accelerate our conversion of Daylight's opportunity base into reserves and production, as illustrated by our substantial increase in reserves this year. Daylight plans to continue this strategy of growth with a $275 million (net of $25 million of estimated Alberta royalty drilling credits) 2010 capital budget as we move towards our planned conversion from a trust to a growth oriented intermediate producer, no later than May 2010. Daylight is guiding average production of 40,000 to 42,000 boe per day for 2010 with an anticipated 2010 exit rate of over 42,000 boe per day.

FOURTH QUARTER FINANCIAL AND OPERATIONAL RESULTS

Financial (CDN$ thousands, except unit, per unit and operational data)	**Q4 2009**	Q3 2009	Q4 2008	Year ended December 31 **2009**	2008
Petroleum and natural gas revenues	**$ 156,695**	$ 66,100	$ 91,311	**$ 361,337**	$ 501,737
Operating netback	**88,299**	60,252	58,266	**263,250**	296,420
Funds from operations	**72,162**	50,245	50,075	**215,761**	264,420
Per unit – Basic	**0.42**	0.41	0.56	**1.76**	3.17
– Diluted	**0.40**	0.39	0.52	**1.65**	2.89
Cash distributions declared	**41,811**	29,385	35,193	**119,107**	117,017
Per unit	**0.24**	0.24	0.39	**0.96**	1.38
Payout ratio	**58%**	58%	70%	**55%**	44%
Capital expenditures	**76,928**	10,613	38,766	**162,757**	165,919
Units outstanding (000s)					
Basic	**174,216**	122,437	90,239	**174,216**	90,239
Diluted	**189,831**	138,499	106,050	**189,831**	106,050
Operational					
Average daily production					
Natural gas (mcf/d)	**136,412**	100,250	82,572	**106,232**	76,805
Light oil (bbls/d)	**9,926**	3,421	4,086	**5,231**	4,754
Heavy oil (bbls/d)	**2,026**	2,096	2,798	**2,095**	2,354
NGLs (bbls/d)	**3,510**	1,277	1,217	**1,891**	1,136
Oil & NGLs (bbls/d)	**15,462**	6,794	8,101	**9,217**	8,244
Combined (boe/d)	**38,197**	23,502	21,863	**26,922**	21,045
Average prices received					
Natural gas ($/mcf)	**$ 4.76**	$ 3.05	$ 7.11	**$ 4.18**	$ 8.41
Light oil ($/bbl)	**74.11**	67.58	55.28	**65.52**	97.52
Heavy oil ($/bbl)	**63.10**	59.39	45.20	**54.03**	76.01
NGLs ($/bbl)	**54.19**	45.08	43.27	**47.73**	72.22
Oil & NGLs ($/bbl)	**$ 68.14**	$ 60.82	$ 50.00	**$ 59.26**	$ 87.89
Combined ($/boe)	**$ 44.59**	$ 30.58	$ 45.40	**$ 36.77**	$ 65.14
$ per boe					
Petroleum and natural gas revenues	**$ 44.59**	$ 30.58	$ 45.40	**$ 36.77**	$ 65.14
Royalties	**(12.00)**	(4.87)	(9.35)	**(7.94)**	(12.76)
Realized gain (loss) on derivative contracts	**4.96**	14.93	6.08	**10.69**	(0.85)
Operating expenses	**(11.53)**	(11.65)	(11.95)	**(11.71)**	(11.99)
Transportation expenses	**(0.89)**	(1.12)	(1.20)	**(1.02)**	(1.06)
Operating netback	**$ 25.13**	$ 27.87	$ 28.98	**$ 26.79**	$ 38.48
G&A – cash charge	**(3.14)**	(2.28)	(2.23)	**(2.85)**	(2.19)
Cash financial charges	**(1.46)**	(2.35)	(1.84)	**(1.99)**	(2.74)
Provision for non-recoverable accounts receivable	**-**	-	-	**-**	(0.23)
Other income[(1)]	**-**	-	-	**-**	1.01
Funds from operations	**$ 20.53**	$ 23.24	$ 24.91	**$ 21.95**	$ 34.33

(1) Non-recurring termination fee of $9.0 million relates to termination of arrangement with Cadence Energy Inc., less transaction costs of $1.2 million.

Per boe amounts may not add exactly due to rounding.

Q4 2009 FINANCIAL & OPERATING RESULTS

Reserves and Finding Costs

- Capital program and acquisition activity replaced 600% of 2009 production on a 2P basis and 390% on a total proved basis.
- Daylight's 2P reserves as of December 31, 2009 are 119.1 million boe, an increase of 70% over the prior year.
- Substantial reserve additions of 58.9 million boe were balanced between internally generated organic adds of 20.4 million boe and acquisition adds of 38.5 million boe. Both programs more than replaced Daylight's 2009 production of 9.8 million boe.

- Based on 2009 2P reserve additions and our total capital expenditures of $162.8 million (excluding acquisitions and future development capital), Finding and Development ("F&D") costs for 2009 were $7.98 per boe. These substantial reserve additions increased our Future Development Capital ("FDC") by $162.7 million in recognition of our advancing resource plays and future drilling opportunities, resulting in a 2P F&D cost (including FDC) of $15.97 per boe.
- Daylight's 2P Finding, Development & Acquisition ("FD&A") costs were $13.94 per boe excluding FDC and $19.03 per boe including FDC.

Production

- Q4 2009 production was 38,197 boe per day, in line with our guidance for the quarter of 38,000 boe per day. This production rate represents a 75% increase over Q4 2008.
- Production for 2009 was 26,922 boe per day, an increase of 28% over 2008.

Strategic Acquisition Activity

- The acquisition of Highpine closed on October 8, 2009.
  - Added 100 sections of Cardium land in the Pembina fairway of which 60 sections are considered highly prospective for Cardium light oil with the application of horizontal multi-frac drilling.
  - Introduced a Montney resource gas play in Wapiti and Rock Creek opportunities in Brazeau.
- West Central Alberta acquisition closed on June 5, 2009.
  - Included additional multi-zone Cretaceous development at Obed.
  - Enhanced our Wilrich natural gas play in Whitecourt.
  - Added 75,000 net acres of undeveloped land including highly prospective Montney acreage adjacent to Daylight's Kaybob property.

Capital

- Daylight's 2009 capital expenditures included the drilling of 59 gross (25.7 net) wells with a 100% success rate.
- Capital expenditures for Q4 2009 were $76.9 million. This level of capital expenditure during Q4 2009 represents an increase from $10.6 million during Q3 2009 and $38.8 million during Q4 2008. Capital expenditures for the full year 2009 were $162.8 million.
- Drilling activity was focused on our blend of low-risk conventional opportunities and unconventional resource plays across the Deep Basin of Alberta and Northeast British Columbia. Targets included: our established Cadomin and uphole Cretaceous resource play plus exciting new Nikanassin and Montney prospects in Elmworth, oil and high liquids yield natural gas and resource play opportunities including the Bluesky, Cardium and Wilrich formations in West Central and the new horizontal Cardium oil play in Pembina.

Hedges

- At December 31, 2009, Daylight had 5,000 GJ per day of natural gas hedged under a zero premium collar with a floor price of Cdn$4.78 per GJ (Cdn$5.04 per mcf) and a ceiling price of Cdn$7.00 per GJ (Cdn$7.39 per mcf) for the period January 1, 2010 to August 31, 2010.
- Subsequent to the end of Q4 2009, Daylight entered into additional hedging contracts for 45,000 GJ per day of natural gas under fixed price contracts with an average price of Cdn$5.69 per GJ (Cdn$6.01 per mcf) for the period April 1, 2010 to March 31, 2011.

Funds from Operations

- Funds from operations were $72.2 million for Q4 2009 and $215.8 million for 2009. Funds from operations for Q4 2009 were up substantially from the $50.2 million recorded in Q3 2009.
- The decrease in funds from operations for 2009 versus 2008 is primarily a result of reduced commodity prices in spite of higher production volumes.

Operating Netback

- Natural gas price during Q4 2009 was $4.76 per mcf which is a 56% increase from the Q3 2009 natural gas price of $3.05 per mcf and is 33% lower than the Q4 2008 natural gas price of $7.11 per mcf. Daylight's 2009 natural gas price was $4.18 per mcf, a 50% decrease from the 2008 natural gas price of $8.41 per mcf.

- 2009 light oil price of $65.52 per bbl was 33% lower than the 2008 realized light oil price of $97.52 per bbl. Daylight's Q4 2009 light oil price was $74.11 per bbl while Q3 2009 light oil realized $67.58 per bbl, a increase of 10%, and Q4 2008 light oil price was $55.28 per bbl, an increase of 34%.
- Q4 2009 heavy oil price of $63.10 per bbl, is 6% higher than the Q3 2009 heavy oil price of $59.39 per bbl and is 40% higher than the Q4 2008 heavy oil price of $45.20. Daylight's 2009 heavy oil price of $54.03 per bbl was 29% lower than the 2008 heavy oil price of $76.01 per bbl.
- 2009 operating expenses were $11.71 per boe a decrease of 2% from $11.99 per boe for 2008. Operating expenses were $11.53 per boe for Q4 2009 versus $11.65 per boe for Q3 2009 and lower than the $11.95 per boe recorded in Q4 2008. Daylight expects its operating costs for 2010 to be between $10.50 and $11.00 per boe.
- Royalty rates increased to 21.6% of revenue in 2009 from 19.6% in 2008, primarily due to an increased weighting to light oil and NGLs which, due to the current pricing levels experienced significantly higher royalties than natural gas. Royalty rates increased to 26.9% of revenue in Q4 2009 from 15.9% of revenue in Q3 2009 and increased from the Q4 2008 rate of 20.6%.
- Operating netbacks were $26.79 per boe in 2009, a decrease of 30% from the $38.48 per boe operating netback recorded in 2008. Operating netback was $25.13 per boe for Q4 2009, a decrease of 10% from the $27.87 per boe recorded in Q3 2009 and a decrease of 13% from Q4 2008's value of $28.98 per boe.

Payout Ratio

- Payout ratio for 2009 was 55%, as compared to 44% in 2008.
- Since inception of the Trust in November 2004 through year end 2009, Daylight has provided a total of $591.7 million or $9.70 per unit of distributions.

Balance Sheet and Financial Flexibility

- $172 million trust unit financing closed during May 2009.
- Bank credit facilities increased to $500 million upon closing of the Highpine acquisition in October 2009.
- $172 million convertible debenture financing announced in December 2009; closed January 5, 2010.
- Upon closing of the convertible debenture financing in January 2010, Daylight's net debt to cash flow ratio is 0.8 times with only $100 million drawn on our $500 million credit facilities.
- Daylight's balance sheet capacity and financial flexibility allows us to pursue strategic opportunities as they arise.

Tax Pools

- Tax pools of over $1.4 billion at December 31, 2009 are available to shelter cash flow from income tax in current periods and well beyond our proposed conversion to a dividend paying corporate structure.

Daylight is a growing intermediate oil and natural gas producing company with a high quality suite of resource play assets in Western Canada. Our highly focused team utilizes our technical expertise in exploitation, development and acquisitions to create long-term value for our unitholders. Our team has developed a multi-year inventory of repeatable, low risk exploitation resource play projects with substantial potential reserve additions on assets we currently own and control in the premier Deep Basin area of Alberta and Northeast British Columbia.

Daylight has approximately 174 million trust units currently outstanding which trade on the TSX under the symbol DAY.UN. Daylight Series B, Series C, and Series D convertible debentures trade on the TSX under the symbols DAY.DB.B, DAY.DB.C and DAY.DB.D respectively.

An updated corporate presentation is available on Daylight's website at www.daylightenergy.ca.

Signed:

"Anthony Lambert"

Anthony Lambert

President & CEO
March 2, 2010

RESERVE HIGHLIGHTS

Reserves are based on an independent reserves evaluation conducted by GLJ Petroleum Consultants Ltd. ("GLJ") effective December 31, 2009 and prepared in accordance with NI 51-101.

- Total proved reserves at December 31, 2009 are 77.0 mmboe and total proved plus probable reserves are 119.1 mmboe. These compare to reserves at December 31, 2008 of 48.6 mmboe total proved reserves, an increase of 58% and 70.0 mmboe total proved plus probable reserves, an increase of 70%.
- Reserve additions were primarily focused on our successful drilling, optimization and completion programs in Elmworth, Pine Creek, Obed, Oldman and Sylvan Lake along with the corporate acquisitions of Highpine Oil & Gas Limited and Intrepid Energy Corporation.
- Daylight's proved plus probable RLI was 8.5 years at the end of 2009 while the proved RLI was 5.5 years based upon GLJ reserves and Daylight's Q4 2009 production of 38,197 boe per day, just down slightly from the 2008 proved plus probable RLI of 8.8.
- Net present value ("NPV") of total proved plus probable reserves increased to $2,006 million at the end of 2009 versus $1,296 million at the end of 2008, discounted at 8% and before income taxes.
- Recycle ratio of 1.9x based on total proved plus probable FD&A cost of $13.94 per boe (excluding FDC), and an annual operating netback of $26.79 per boe.

RESERVE INFORMATION

Reserves included herein are stated on a company interest basis (before royalty burdens and including royalty interests) unless noted otherwise. All reserves information has been prepared in accordance with National Instrument ("NI") 51-101. This report contains several cautionary statements that are specifically required by NI 51-101. In addition to the detailed information disclosed in this press release more detailed information on a net interest basis (after royalty burdens and including royalty interests) and on a gross interest basis (before royalty burdens and excluding royalty interests) will be included in Daylight's Annual Information Form ("AIF") which will be available on www.sedar.com.

Based on an independent reserves evaluation of all of Daylight's assets conducted by GLJ Petroleum Consultants Ltd. ("GLJ") effective December 31, 2009 and prepared in accordance with NI 51-101, Daylight had proved plus probable reserves of 119.1 mmboe. Proved plus probable reserve additions from exploration and development activities (including revisions) were 20.4 mmboe. This represents 207% of the 9.8 mmboe produced during 2009. Exploration and development activities (including revisions) combined with our corporate acquisition additions to total proved plus probable reserves of 38.5 mmboe brings total proved plus probable reserve additions to 58.9 mmboe. As a result, year end 2009 proved plus probable reserves are 70% higher at 119.1 mmboe than the 70.0 mmboe of reserves recorded at year end 2008.

Proved developed producing reserves represent 47% of proved plus probable reserves while total proved reserves account for 65% of proved plus probable reserves. Approximately 32% of Daylight's proved plus probable reserves are crude oil and natural gas liquids while 68% are natural gas on a boe basis.

TOTAL COMPANY INTEREST

	Light and Medium Crude Oil	Heavy Crude Oil	Total Crude Oil	Natural Gas Liquids	Natural Gas	Oil Equivalent
	(mbbl)	(mbbl)	(mbbl)	(mbbl)	(mmcf)	(mboe)
Proved						
Developed Producing	8,499	5,692	14,191	6,169	210,912	55,512
Developed Non-Producing	628	59	687	449	18,703	4,253
Undeveloped	1,700	1,286	2,986	778	80,957	17,257
Total Proved	10,827	7,036	17,863	7,396	310,572	77,022
Probable	4,934	3,194	8,128	4,969	173,662	42,040
Proved plus Probable	15,761	10,230	25,992	12,365	484,234	119,062

NET INTEREST

	Light and Medium Crude Oil	Heavy Crude Oil	Total Crude Oil	Natural Gas Liquids	Natural Gas	Oil Equivalent
	(mbbl)	(mbbl)	(mbbl)	(mbbl)	(mmcf)	(mboe)
Proved						
Producing	5,498	5,011	10,509	3,747	174,983	43,419
Developed Non-Producing	382	49	431	309	15,610	3,342
Undeveloped	1,141	1,045	2,186	568	68,642	14,194
Total Proved	7,020	6,105	13,125	4,624	259,235	60,955
Probable	2,990	2,690	5,680	3,251	147,159	33,457
Proved plus Probable	10,010	8,796	18,806	7,875	406,393	94,412

Notes:

1. Boe may be misleading, particularly if used in isolation. In accordance with NI 51-101, a boe conversion ratio for natural gas of 6 Mcf: 1 bbl has been used which is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.
2. Numbers may not add due to rounding.

RESERVES RECONCILIATIONS

	Total Crude Oil	Natural Gas Liquids	Natural Gas	Oil Equivalent
	(mbbl)	(mbbl)	(mmcf)	(mboe)
Proved Producing				
December 31, 2008	12,634	2,369	145,901	39,319
Exploration Discoveries	98	12	4,568	872
Drilling Extensions	-	314	19,606	3,582
Improved Recovery	-	-	-	-
Infill Drilling	267	-	-	267
Technical Revisions	(1,166)	334	12,271	1,213
Acquisitions	5,070	3,831	67,355	20,126
Dispositions	(37)	(1)	(13)	(40)
Production	(2,674)	(690)	(38,775)	(9,827)
December 31, 2009	**14,191**	**6,169**	**210,912**	**55,512**

	Total Crude Oil	Natural Gas Liquids	Natural Gas	Oil Equivalent
	(mbbl)	(mbbl)	(mmcf)	(mboe)
Total Proved				
December 31, 2008	15,281	2,744	183,212	48,560
Exploration Discoveries	98	13	4,717	897
Drilling Extensions	315	763	64,108	11,762
Improved Recovery	-	-	-	-
Infill Drilling	-	-	-	-
Technical Revisions	(1,598)	276	12,147	702
Acquisitions	6,479	4,291	85,233	24,976
Dispositions	(37)	-	(70)	(49)
Production	(2,674)	(690)	(38,775)	(9,827)
December 31, 2009	**17,864**	**7,396**	**310,572**	**77,022**

	Total Crude Oil	Natural Gas Liquids	Natural Gas	Oil Equivalent
	(mbbl)	(mbbl)	(mmcf)	(mboe)
Total Proved Plus Probable				
December 31, 2008	21,578	4,033	266,272	69,989
Exploration Discoveries	131	17	6,347	1,206
Drilling Extensions	491	1,297	71,222	13,659
Improved Recovery	-	-	-	-
Infill Drilling	-	89	32,568	5,517
Technical Revisions	(2,920)	372	15,308	3
Acquisitions	9,439	7,248	131,389	38,585
Dispositions	(53)	(1)	(98)	(70)
Production	(2,674)	(690)	(38,775)	(9,827)
December 31, 2009	**25,991**	**12,365**	**484,234**	**119,062**

RESERVE LIFE INDEX ("RLI")

Daylight's proved plus probable RLI was 8.5 years at the end of 2009 while the proved RLI was 5.5 years based upon GLJ reserves and Daylight's Q4 2009 production of 38,197 boe per day.

NET PRESENT VALUE ("NPV") SUMMARY

Daylight's crude oil, natural gas and natural gas liquids reserves were evaluated using GLJ's product price forecasts effective January 1, 2010 prior to provision for income taxes, interest, financial charges and general and administrative expenses. It should not be assumed that the discounted future net production revenues estimated by GLJ represent the fair market value of the reserves.

NPV of Cash Flow Using GLJ January 1, 2010 Forecast Prices and Costs

NI 51-101 Net Interest	0%	5%	8%	10%	12%
($000s)					
Proved					
Developed Producing	1,598,513	1,286,670	1,157,644	1,087,038	1,025,852
Developed Non-Producing	106,118	79,434	68,691	62,903	57,944
Undeveloped	333,219	215,853	170,174	146,278	126,333
Total Proved	2,037,850	1,581,957	1,396,509	1,296,219	1,210,130
Probable	1,260,175	771,954	609,199	529,375	465,259
Proved plus Probable	3,298,025	2,353,911	2,005,708	1,825,594	1,675,388

At an 8% discount factor, the proved producing reserves make up 58% of the proved plus probable value while total proved reserves account for 70% of the proved plus probable value. GLJ's price forecast utilized in the evaluation is summarized below.

GLJ January 1, 2010 Price Forecast

Year	West Texas Intermediate Crude Oil	Edmonton Light Crude Oil	Natural Gas at AECO	Foreign Exchange
	($US/bbl)	($Cdn/bbl)	($Cdn/mmbtu)	($US/$Cdn)
2010	80.00	83.26	5.96	0.95
2011	83.00	86.42	6.79	0.95
2012	86.00	89.58	6.89	0.95
2013	89.00	92.74	6.95	0.95
2014	92.00	95.90	7.05	0.95
2015	93.84	97.84	7.16	0.95
2016	95.72	99.81	7.42	0.95
2017	97.64	101.83	7.95	0.95
2018	99.59	103.88	8.52	0.95
2019	101.58	105.98	8.69	0.95
Escalate thereafter at	+2.0%/yr	+2.0%/yr	+2.0%/yr	0%/yr

NET ASSET VALUE ("NAV") SUMMARY

The following NAV table shows what is normally referred to as a "produced-out" NAV calculation under which the current value of the Trust's reserves would be produced at forecast future prices and costs. The value is a snapshot in time and is based on various assumptions including commodity prices and foreign exchange rates that vary over time.

Net Asset Value	2009
(000)	
Proved plus Probable NI 51 - 101 discounted at 8%	$ 2,005,708
Undeveloped Land, Seismic and Other Assets (internal estimate)	290,087
Investments (market value)	11,302
Unrealized gain on derivative contracts	194
Bank Debt	(260,172)
Debenture (face value)	(128,717)
Working Capital Deficiency	(101,482)
Net Asset Value – Basic	$ 1,816,920
Basic Units Outstanding (000)	174,216
Net Asset Value – Basic (per unit)	$ 10.43

FUTURE DEVELOPMENT CAPITAL ("FDC")

NI 51-101 requires that finding, development and acquisition ("FD&A") costs be calculated including changes in FDC. Changes in forecast FDC occur annually as a result of development activities, acquisition and disposition activities and capital cost estimates that reflect the independent evaluator's best estimate of what it will cost to bring the proved undeveloped and probable reserves on production.

FINDING, DEVELOPMENT AND ACQUISITION COSTS ("FD&A") – COMPANY INTEREST RESERVES[1]

During 2009 Daylight spent $162.8 million on its internal capital program which added 13.4 mmboe of proved and 20.4 mmboe of proved plus probable reserves, including revisions. Daylight's internal capital program replaced 207% of its 2009 production on a proved plus probable basis. In total, Daylight drilled 59 gross (25.7 net) wells with a 100% drilling success rate.

	Proved	Proved plus Probable
FD&A Costs Excluding Future Development Capital		
Exploration and Development Capital Expenditures - (000)	$ 162,757	$ 162,757
Exploration and Development Reserve Additions Including Revisions - mboe	13,361	20,384
Finding and Development Cost - per boe	***$ 12.18***	***$ 7.98***
Net Acquisition Capital - (000)	$ 658,105	$ 658,105
Net Acquisition Reserve Additions - mboe	24,927	38,515
Net Acquisition Cost - per boe	***$ 26.40***	***$ 17.09***
Total Capital Expenditures including Net Acquisitions - (000)	$ 820,862	$ 820,862
Reserve Additions including Net Acquisitions - mboe	38,288	58,900
Finding Development and Acquisition Cost - per boe	***$ 21.44***	***$ 13.94***
FD&A Costs Including Future Development Capital		
Exploration and Development Capital Expenditures - (000)	$ 162,757	$ 162,757
Exploration and Development Change in FDC – (000)	$ 107,898	$ 162,721
Exploration and Development Capital Including change in FDC – (000)	$ 270,655	$ 325,478
Exploration and Development Reserve Additions Including Revisions - mboe	13,361	20,385
Finding and Development Cost - per boe	***$ 20.26***	***$ 15.97***
Net Acquisition Capital - (000)	$ 658,105	$ 658,105
Net Acquisition FDC - (000)	$ 69,991	$ 137,071
Net Acquisition Capital including FDC - (000)	$ 728,096	$ 795,176
Net Acquisition Reserve Additions - mboe	24,927	38,515
Net Acquisition Cost - per boe	***$ 29.21***	***$ 20.65***
Total Capital Expenditures including Net Acquisitions - (000)	$ 820,862	$ 820,862
Total Change in FDC - (000)	$ 177,889	$ 299,792
Total Capital Including Change in FDC - (000)	$ 998,750	$1,120,653
Reserve Additions Including Net Acquisitions - mboe	38,288	58,900
Finding Development and Acquisition Cost including FDC - per boe	***$ 26.09***	***$ 19.03***

[1] In all cases, the FD&A number is calculated by dividing the identified capital expenditures by the applicable reserves additions. Boe's may be misleading, particularly if used in isolation. In accordance with NI 51-101, a boe conversion ratio for natural gas of 6 Mcf: 1 bbl has been used which is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

FDC (000)	Proved	Proved plus Probable
December 31, 2008	$ 113,407	$ 182,866
Exploration & development changes in period	$ 177,889	$ 299,792
December 31, 2009	$ 291,296	$ 482,658

Daylight's proved plus probable F&D costs for 2009 were $7.98 per boe excluding FDC and $15.97 including FDC. On a proved basis, Daylight's F&D costs were $12.18 per boe excluding FDC and $20.26 including FDC.

Daylight completed two corporate acquisitions during 2009 spending $658.1 million to purchase 38.5 mmboe of proved plus probable reserves. Incorporating net acquisitions during 2009, Daylight's proved plus probable FD&A costs were $13.94 per boe excluding FDC and $19.03 including FDC. Daylight's proved FD&A costs were $21.44 per boe excluding FDC and $26.09 per boe including FDC.

$ per boe	2007	2008	2009	3 year
F&D Costs Excluding Future Development Capital				
Proved	15.97	25.97	**12.18**	16.48
Proved plus Probable	15.47	16.41	**7.98**	11.57
F&D Costs Including Future Development Capital				
Proved	21.40	28.70	**20.26**	22.62
Proved plus Probable	22.78	20.44	**15.97**	18.35

$ per boe	2007	2008	2009	3 year
FD&A Costs Excluding Future Development Capital				
Proved	15.97	20.77	**21.44**	20.71
Proved plus Probable	15.47	15.33	**13.94**	14.30
FD&A Costs Including Future Development Capital				
Proved	21.40	23.22	**26.09**	25.04
Proved plus Probable	22.78	17.67	**19.03**	19.09

RESERVE REPLACEMENT

Daylight's 2009 FD&A activities replaced 599% of production on a proved plus probable basis and 390% on a proved basis.

	2009
Production - mboe	9,827
Proved plus probable reserve additions – mboe	58,900
Proved plus probable reserve replacement - %	599
Proved reserve additions - mboe	38,288
Proved reserve replacement - %	390
Proved producing reserve additions - mboe	26,020
Proved producing reserve replacement - %	265

RECYCLE RATIO

The recycle ratio is a measure for evaluating the effectiveness of an organization's reinvestment program. This ratio measures the efficiency of Daylight's internal capital program by comparing the operating netback per boe to the current year internal FD&A costs per boe and F&D costs per boe.

	2009
Operating netback - $ per boe	26.79
Proved plus probable reserve FD&A cost (excluding FDC) - $ per boe	13.94
Proved plus probable recycle ratio (excluding FDC)	1.9x
Proved plus probable reserve FD&A cost (including FDC) - $ per boe	19.03
Proved plus probable recycle ratio (including FDC)	1.4x
Proved reserve FD&A cost (excluding FDC) - $ per boe	21.44
Proved recycle ratio (excluding FDC)	1.2x
Proved reserve FD&A cost (including FDC) - $ per boe	26.09
Proved recycle ratio (including FDC)	1.0x

	2009
Operating netback - $ per boe	26.79
Proved plus probable reserve F&D cost (excluding FDC) - $ per boe	7.98
Proved plus probable recycle ratio (excluding FDC)	3.4x
Proved plus probable reserve F&D cost (including FDC) - $ per boe	15.97
Proved plus probable recycle ratio (including FDC)	1.7x
Proved reserve F&D cost (excluding FDC) - $ per boe	12.18
Proved recycle ratio (excluding FDC)	2.2x
Proved reserve F&D cost (including FDC) - $ per boe	20.26
Proved recycle ratio (including FDC)	1.3x

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion & Analysis ("MD&A") is dated March 2, 2010 and should be read in conjunction with the accompanying audited consolidated financial statements and notes for the years ended December 31, 2009 and 2008. The consolidated financial statements and other financial data presented have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). This MD&A should also be read in conjunction with the Annual Information Form which includes complete NI 51-101 reserve disclosure and is available at www.sedar.com and on our website at www.daylightenergy.ca. The following MD&A compares the results of the three months ended December 31, 2009 ("Q4 2009") to the three months ended September 30, 2009 ("Q3 2009") and to the three months ended December 31, 2008 ("Q4 2008"). This MD&A also compares the results of the year ended December 31, 2009 ("2009") to the year ended December 31, 2008 ("2008"). All references are to Canadian dollars unless otherwise indicated.

NON-GAAP MEASURES

Daylight Resources Trust ("Daylight" or the "Trust") utilizes the following terms for measurement within the MD&A that do not have standardized prescribed meaning under GAAP and these measurements may not be comparable with the calculation of similar measurements of other entities.

"Funds from operations" and **"funds from operations per unit"** are terms utilized by Daylight to evaluate operating performance and assess leverage. Daylight considers funds from operations to be an important measure of Daylight's ability to generate the funds necessary to pay distributions, repay debt and finance capital expenditures. Funds from operations does not represent net income for the period nor should it be viewed as an alternative to net income or other measures of financial performance calculated in accordance with GAAP. All references to funds from operations throughout the MD&A are based on cash provided by operating activities before the change in non-cash operating working capital and asset retirement expenditures since Daylight believes the timing of collection, payment or incurrence of these items involves a high degree of discretion and as such these items are not useful for evaluating Daylight's operating performance. A reconciliation of cash provided by operating activities to funds from operations follows.

(000s)	**Q4 2009**	Q3 2009	Q4 2008	Year ended December 31 **2009**	2008
Cash provided by operating activities	**$ 48,756**	$ 44,054	$ 47,416	**$ 189,437**	$ 259,759
Change in non-cash operating working capital	**23,052**	2,684	1,329	**20,198**	861
Asset retirement expenditures	**354**	3,507	1,330	**6,126**	3,800
Funds from operations	**$ 72,162**	$ 50,245	$ 50,075	**$ 215,761**	$ 264,420

"Payout ratio" is a term utilized to evaluate financial flexibility and the capacity to fund distributions. Payout ratio is defined on a percentage basis as distributions declared divided by funds from operations.

"Operating netback" is a term utilized by Daylight to evaluate the operating performance of petroleum and natural gas assets. The term operating netback is defined as petroleum and natural gas revenues less royalties, realized gain (loss) on derivative contracts, operating and transportation expenses.

"boe" is a term utilized by Daylight in relation to reserves or production to combine the volumetric measures of natural gas, light oil, heavy oil and natural gas liquids ("NGLs") to a common "barrel of oil equivalent" term of measurement. Natural gas volumes have been converted at the ratio of 6,000 cubic feet of natural gas to one boe and this conversion ratio is based upon an energy equivalent conversion method primarily applicable at the burner tip and does not represent value equivalence at the wellhead. Light oil, heavy oil and NGLs have been converted at the ratio of one barrel of these liquids to one boe. Use of the terms boe and amounts per boe without reference to the underlying commodity may be misleading.

FORWARD-LOOKING STATEMENTS

Certain statements contained within this MD&A, and in certain documents incorporated by reference into this document, constitute forward-looking statements. These statements relate to future events or our future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. We believe the expectations reflected in these forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A or as of the date specified in the documents incorporated by reference into this MD&A, as the case may be.

This MD&A, and the documents incorporated by reference, contain forward-looking statements pertaining to the following:

- the performance characteristics of our oil and natural gas properties;
- the size of our oil, natural gas liquids and natural gas reserves and production levels;
- estimates of future cash flow and distributions;
- projections of market prices and costs and the related sensitivities to distributions;
- drilling plans and timing of drilling, recompletion and tie-in of wells;
- weighting of production between different commodities;
- commodity prices, exchange rates and interest rates;
- expected levels of royalty rates, operating costs, general and administrative costs, costs of services and other costs and expenses;
- capital expenditure programs and other expenditures and the timing and method of financing thereof;
- supply of and demand for oil, natural gas liquids and natural gas;
- expectations regarding our ability to raise capital and to continually add to reserves through acquisitions and development;
- the existence, operation and strategy of our commodity price risk management program;
- the approximate and maximum amount of forward sales and hedging to be employed by us;
- our acquisition strategy, the criteria to be considered in connection therewith and the benefits to be derived therefrom;
- our ability to grow or sustain production and reserves through prudent management;
- the emergence of accretive growth opportunities and continued access to capital markets;
- our future operating and financial results;
- schedules and timing of certain projects and our strategy for future growth;
- intended conversion to a corporation and the timing of conversion; and
- treatment under governmental and other regulatory regimes and tax, environmental and other laws.

In particular, this MD&A contains the following forward-looking statements pertaining to the following:

- production volumes;
- timing of cash flows;
- future oil and gas prices;
- operating costs;
- royalty rates;
- future development, exploration, and acquisition and development activities and related expenditures;
- future liquidity and future financial capacity;
- distributions to unitholders;

- future tax treatment of the Trust; and
- future structure of the Trust and its subsidiaries including conversion to a corporation and the timing of such conversion.

With respect to forward-looking statements contained in this MD&A and the documents incorporated by reference herein, we have made assumptions regarding, among other things:

- future oil and natural gas prices and differentials between light, medium and heavy oil prices;
- the continued availability of capital, undeveloped lands and skilled personnel;
- the costs of expanding our property holdings;
- the ability to obtain equipment in a timely manner to carry out exploration, development and exploitation activities;
- the ability to obtain financing on acceptable terms;
- the ability to add production and reserves through exploration, development and exploitation activities; and
- the continuation of the current tax and regulatory regime and other assumptions contained in this MD&A and the documents incorporated by reference herein.

The actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A and the documents incorporated by reference into this document:

- volatility in market prices for oil, natural gas liquids and natural gas;
- counterparty credit risk;
- access to capital;
- changes or fluctuations in oil, natural gas liquids and natural gas production levels;
- liabilities inherent in oil and natural gas operations;
- adverse regulatory rulings, orders and decisions;
- attracting, retaining and motivating skilled personnel;
- uncertainties associated with estimating oil and natural gas reserves;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands, and services;
- incorrect assessments of the value of acquisitions and targeted exploration and development assets;
- fluctuations in foreign exchange or interest rates;
- stock market volatility, market valuations and the market value of the securities of Daylight;
- failure to realize the anticipated benefits of acquisitions;
- actions by governmental or regulatory authorities including changes in royalty structures and programs and income tax laws (including those relating to mutual fund trusts or investment eligibility) or changes in tax laws and incentive programs relating to the oil and gas industry and income trusts;
- limitations on insurance;
- changes in accounting policies and standards;
- changes in environmental or other legislation applicable to our operations, and our ability to comply with current and future environmental and other laws; and
- geological, technical, drilling and processing problems and other difficulties in producing oil, natural gas liquids and natural gas reserves.

Statements relating to "reserves" or "resources" are by their nature deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future.

Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this MD&A and the documents incorporated by reference herein are expressly qualified by this cautionary statement. We do not undertake any obligation to publicly update or revise any forward-looking statements except as required by applicable securities law.

HIGHLIGHTS

Financial (CDN$ thousands, except unit, per unit and operational data)	Q4 2009	Q3 2009	Q4 2008	Year ended December 31 2009	2008
Petroleum and natural gas revenues	$ 156,695	$ 66,100	$ 91,311	$ 361,337	$ 501,737
Royalties	(42,179)	(10,527)	(18,814)	(78,055)	(98,264)
Realized gain (loss) on derivative contracts	17,421	32,282	12,230	105,036	(6,514)
Operating expenses	(40,526)	(25,179)	(24,038)	(115,021)	(92,337)
Transportation expenses	(3,112)	(2,424)	(2,423)	(10,047)	(8,202)
Operating netback	88,299	60,252	58,266	263,250	296,420
G&A – cash charge	(11,023)	(4,934)	(4,483)	(27,958)	(16,879)
Cash financial charges	(5,114)	(5,073)	(3,708)	(19,531)	(21,127)
Provision for non-recoverable accounts receivable	-	-	-	-	(1,800)
Other income[(1)]	-	-	-	-	7,806
Funds from operations	72,162	50,245	50,075	215,761	264,420
Per unit – Basic	0.42	0.41	0.56	1.76	3.17
– Diluted	0.40	0.39	0.52	1.65	2.89
Cash provided by operating activities	48,756	44,054	47,416	189,437	259,759
Net income (loss)	(7,858)	(7,244)	44,424	(23,574)	160,519
Per unit – Basic	(0.05)	(0.06)	0.50	(0.19)	1.92
– Diluted	(0.05)	(0.06)	0.48	(0.19)	1.80
Cash distributions declared	41,811	29,385	35,193	119,107	117,017
Per unit	0.24	0.24	0.39	0.96	1.38
Payout ratio	58%	58%	70%	55%	44%
Capital expenditures	76,928	10,613	38,766	162,757	165,919
Cash property acquisitions and divestitures	-	-	66,571	-	(21,124)
Non-cash property acquisitions	-	-	26,887	-	26,887
Corporate acquisitions	534,278	-	-	658,105	36,433
Market value of investments	11,302	4,143	2,285	11,302	2,285
Bank debt	260,172	164,172	219,853	260,172	219,853
Working capital deficiency [(2)]	101,482	31,298	42,275	101,482	42,275
Convertible debentures	117,897	117,217	115,201	117,897	115,201
Total assets	1,727,814	1,097,686	1,058,195	1,727,814	1,058,195
Units outstanding (000s) - Basic	174,216	122,437	90,239	174,216	90,239
- Diluted	189,831	138,499	106,050	189,831	106,050

Operational *(Per boe amounts may not add exactly due to rounding)*					
Average daily production					
Natural gas (mcf/d)	136,412	100,250	82,572	106,232	76,805
Light oil (bbls/d)	9,926	3,421	4,086	5,231	4,754
Heavy oil (bbls/d)	2,026	2,096	2,789	2,095	2,354
NGLs (bbls/d)	3,510	1,277	1,217	1,891	1,136
Oil & NGLs (bbls/d)	15,462	6,794	8,101	9,217	8,244
Combined (boe/d)	38,197	23,502	21,863	26,922	21,045
Average prices received					
Natural gas ($/mcf)	$ 4.76	$ 3.05	$ 7.11	$ 4.18	$ 8.41
Light oil ($/bbl)	74.11	67.58	55.28	65.52	97.52
Heavy oil ($/bbl)	63.10	59.39	45.20	54.03	76.01
NGLs ($/bbl)	54.19	45.08	43.27	47.73	72.22
Oil & NGLs ($/bbl)	$ 68.14	$ 60.82	$ 50.00	$ 59.26	$ 87.89
Combined ($/boe)	$ 44.59	$ 30.58	$ 45.40	$ 36.77	$ 65.14
$ per boe					
Petroleum and natural gas revenues	$ 44.59	$ 30.58	$ 45.40	$ 36.77	$ 65.14
Royalties	(12.00)	(4.87)	(9.35)	(7.94)	(12.76)
Realized gain (loss) on derivative contracts	4.96	14.93	6.08	10.69	(0.85)
Operating expenses	(11.53)	(11.65)	(11.95)	(11.71)	(11.99)
Transportation expenses	(0.89)	(1.12)	(1.20)	(1.02)	(1.06)
Operating netback	$ 25.13	$ 27.87	$ 28.98	$ 26.79	$ 38.48
G&A – cash charge	(3.14)	(2.28)	(2.23)	(2.85)	(2.19)
Cash financial charges	(1.46)	(2.35)	(1.84)	(1.99)	(2.74)
Provision for non-recoverable accounts receivable	-	-	-	-	(0.23)
Other income[(1)]	-	-	-	-	1.01
Funds from operations	$ 20.53	$ 23.24	$ 24.91	$ 21.95	$ 34.33
Wells drilled – gross (net)	20 (9.1)	17 (10.4)	10 (3.2)	59 (25.7)	50 (21.4)

(1) Non-recurring termination fee of $9.0 million relates to termination of arrangement with Cadence Energy Inc., less transaction costs of $1.2 million.
(2) Excludes unrealized gain (loss) on derivative contracts and future income tax liability.

RESULTS OF OPERATIONS

Overview

Daylight is a growing intermediate oil and natural gas producing company with a high quality suite of assets in Western Canada. Our focused team utilizes our technical expertise in exploitation, development and acquisitions to create long-term value for our unitholders. Our team has developed a multi-year inventory of repeatable, low risk exploitation resource play projects with substantial potential reserve additions on assets we currently own and control in the Deep Basin area of Alberta. Daylight's trust units, 8.5% Convertible Debentures Series B, 10.0% Convertible Debentures Series C and 6.25% Convertible Debentures Series D trade on the Toronto Stock Exchange ("TSX") with the symbols DAY.UN, DAY.DB.B, DAY.DB.C, and DAY.DB.D respectively.

Although 2009 has been challenging for the oil and gas sector, with continued low natural gas prices and volatility in the global economy affecting demand, Daylight remained focused on its long-term plan of acquiring and developing high quality assets in its core areas. Daylight has maintained its strong financial position with a net debt to annualized funds from operations ratio of 1.5 times at December 31, 2009, significant available capacity on its bank credit facilities, and an extensive portfolio of internal development prospects. The maintenance of a healthy balance sheet has provided Daylight with the flexibility to execute on opportunities throughout the year. On October 8, 2009, Daylight closed its acquisition of Highpine Oil & Gas Limited ("Highpine") which increased Daylight's production to 38,197 boe per day from Q3 2009 production of 23,502 boe per day. Daylight also acquired Intrepid Energy Corporation ("Intrepid") on June 5, 2009 (see "Capital Expenditures, Acquisitions and Divestitures").

On May 7, 2009, the Trust issued 24,630,000 trust units for gross proceeds of $172 million. Subsequent to year-end 2009, Daylight issued $172.5 million principal amount of 6.25% Convertible Unsecured Subordinated Debentures, Series D ("Series D Debentures") for net proceeds of $165.6 million. These funds have been used to repay bank debt and for general corporate purposes.

Based on analysis of restructuring options available to income trusts, tax considerations and long-term plans for the organization, Daylight intends to propose to unitholders that Daylight convert to a dividend paying corporation following its May 2010 Annual and Special Meeting. Into 2010, Daylight will continue to pursue strategic opportunities and will capitalize on the organization's extensive portfolio of internal development prospects and maintain focus on preserving financial flexibility.

Production

Daylight's total production volumes for Q4 2009 averaged 38,197 boe per day, a 63% increase from Q3 2009, due to the acquisition of Highpine on October 8, 2009. Q4 2009 production was comprised of 136,412 mcf per day of natural gas, 9,926 bbls per day of light oil, 2,026 bbls per day of heavy oil and 3,510 bbls per day of NGLs. Production for Q4 2009 increased 75% from Q4 2008 due to our corporate and property acquisitions - see the "Capital Expenditures, Acquisitions and Divestitures" section of this MD&A for additional information on the acquisitions of Highpine, Intrepid, Athlone Energy Ltd. ("Athlone"), West Central properties and Elmworth properties. Production for 2009 was 26,922 boe per day, an increase of 28% from 2008.

With the addition of the Highpine volumes and Daylight's significant 2010 drilling program, Daylight expects production to average between 40,000 – 42,000 boe per day for 2010. Daylight's 2010 production guidance is based on the investment of $275 million in our 2010 internal capital program.

	Q4 2009	Q3 2009	Q4 2008	Year ended December 31 2009	2008
Natural gas (mcf/d)	**136,412**	100,250	82,572	**106,232**	76,805
Light oil (bbls/d)	**9,926**	3,421	4,086	**5,231**	4,754
Heavy oil (bbls/d)	**2,026**	2,096	2,798	**2,095**	2,354
NGLs (bbls/d)	**3,510**	1,277	1,217	**1,891**	1,136
Combined oil & NGLs (bbls/d)	**15,462**	6,794	8,101	**9,217**	8,244
Combined all products (boe/d)	**38,197**	23,502	21,863	**26,922**	21,045

Production addition activities for calendar 2010 are focused on the following:

- Peace River Arch properties of Elmworth, Wapiti and Jackpine
- West Central properties of Obed, Medicine Lodge, Pine Creek and Kaybob
- East properties of Pembina

Commodity Prices

Daylight's natural gas prices are influenced by both North American and global supply and demand balances, seasonal changes, storage levels, the Canadian to US dollar exchange rate and transportation capacity constraints. Daylight's realized natural gas price has a high correlation to the daily Alberta benchmark price ("AECO") which provides pricing for natural gas. Daylight markets the majority of its natural gas through a combination of the daily AECO index price and monthly AECO index price contracts with a small portion of its natural gas sold through longer-term contracts with aggregators. As a result, Daylight's realized natural gas price is compared to AECO index prices.

Daylight's oil prices are significantly influenced by global supply and demand conditions. Daylight's realized light oil price has a high correlation to the US benchmark West Texas Intermediate at Cushing, Oklahoma ("WTI") price converted at the Canadian to US dollar exchange rate. Canadian light oil prices, including the Edmonton par price, correlate to refinery postings that adjust WTI for the Canadian to US dollar exchange rate as well as transportation costs and quality differentials.

Daylight's realized heavy oil price is lower than its light oil price and the historical correlation with Edmonton par price and Bow River price, a heavy oil benchmark, is not overly strong. Heavy oil requires increased refining and other costs, such as condensate for transportation blending, which reduce the realized price of this product.

NGLs include condensate, pentane, butane and propane. Prices for NGLs have their own market dynamic with a relatively strong correlation to light oil prices for condensate and pentane, while butane and propane trade at varying discounts due to market conditions including supply and demand.

Market prices	Q4 2009	Q3 2009	Q4 2008	Year ended December 31 2009	2008
AECO Index ($Cdn/mcf)					
Daily Index	$ **4.51**	$ 2.94	$ 6.69	$ **3.95**	$ 8.14
Monthly Index	**4.23**	3.02	6.79	**4.14**	8.13
WTI ($US/bbl)	**76.03**	68.14	59.06	**61.99**	99.92
Edmonton par ($Cdn/bbl)	**76.73**	71.74	63.62	**66.30**	102.66
Bow River ($Cdn/bbl)	**68.61**	64.59	48.75	**59.72**	83.75
Exchange rate ($Cdn/$US)	**0.9471**	0.9116	0.8277	**0.8809**	0.9432

Daylight prices realized		Q4 2009		Q3 2009		Q4 2008		Year ended December 31 2009		2008
Natural gas ($/mcf)	$	**4.76**	$	3.05	$	7.11	$	**4.18**	$	8.41
Light oil ($/bbl)		**74.11**		67.58		55.28		**65.52**		97.52
Heavy oil ($/bbl)		**63.10**		59.39		45.20		**54.03**		76.01
NGLs ($/bbl)		**54.19**		45.08		43.27		**47.73**		72.22
Combined oil & NGLs ($/bbl)	$	**68.14**	$	60.82	$	50.00	$	**59.26**	$	87.89
Combined all products ($/boe)	$	**44.59**	$	30.58	$	45.40	$	**36.77**	$	65.14

Daylight markets its natural gas through contracts based on daily and monthly AECO index pricing with less than 5% sold through longer-term contracts with aggregators. Daylight's natural gas price during Q4 2009 was $4.76 per mcf, a 6% premium to the daily AECO index price during the period, and a 56% increase from the Q3 2009 natural gas price of $3.05 per mcf. Daylight sold at daily AECO prices for November and December 2009. Throughout the remainder of 2009, Daylight sold approximately 35% of its production at the monthly AECO index price. Daylight's premium to AECO has increased with the acquisition of Highpine. Daylight's Q4 2009 natural gas price was 33% lower than the Q4 2008 natural gas price of $7.11 per mcf, which is consistent with the decrease to both daily and monthly AECO index prices between these two periods. During Q4 2009, the daily AECO pricing for natural gas ranged from a low of approximately $2.22 per mcf to a high of approximately $6.51 per mcf. Daylight's 2009 natural gas price was $4.18 per mcf, a 6% premium to daily AECO index prices during the period and a 50% decrease from the 2008 natural gas price of $8.41 per mcf.

Daylight's Q4 2009 light oil realized $74.11 per bbl, 97% of Edmonton par, while Q3 2009 light oil realized $67.58 per bbl, 94% of Edmonton par, resulting in a quarter over quarter increase of 10%. Daylight's light oil price for Q4 2009 was 34% higher than the Q4 2008 light oil price of $55.28 per bbl, which was 87% of Edmonton par. Daylight's 2009 light oil price of $65.52 per barrel, 99% of Edmonton par, was 33% lower than the 2008 realized light oil price of $97.52 per barrel, 95% of Edmonton par. Changes in the Canadian dollar to US dollar exchange rate affect the Canadian dollar Edmonton par and Daylight's realized light oil price relative to the US dollar WTI, with a higher exchange rate generally reducing Edmonton par and Daylight's realized light oil price relative to WTI and a lower exchange rate generally increasing Edmonton par and Daylight's realized light oil price relative to WTI.

The Canadian dollar to US dollar exchange rate for Q4 2009 was 0.9471 which generally put downward movement on Edmonton par and Daylight's realized light oil price in the quarter when compared to Q3 2009 with an exchange rate of 0.9116 and Q4 2008 with an exchange rate of 0.8277. The Canadian dollar to US dollar exchange rate for 2009 was 0.8809 as compared to 0.9432 for 2008.

For the first nine months of 2008, the Edmonton par price and Bow River price were very strong which resulted in an enhanced price realization by Daylight on its heavy oil production. In Q4 2008 and Q1 2009, the Edmonton par price and Bow River price dropped significantly resulting in lower realized prices by Daylight on its heavy oil production. From Q2 2009 to Q4 2009, the Edmonton par and Bow River prices started to recover, increasing Daylight's realized prices, but not to the levels of the first nine months of 2008. Daylight's heavy oil production is concentrated at two properties, with Wildmere producing approximately 90% of Q4 2009 volumes and Chipman producing the remaining 10%. Daylight's Q4 2009 heavy oil price of $63.10 per bbl, 92% of Bow River, is 6% higher than the Q3 2009 heavy oil price of $59.39 per bbl, 92% of Bow River. Daylight's Q4 2009 heavy oil price was 40% higher than the Q4 2008 heavy oil price of $45.20 per bbl, 93% of Bow River. Daylight's 2009 heavy oil price of $54.03 per barrel, 90% of Bow River, was 29% lower than the 2008 heavy oil price of $76.01 per barrel, 91% of Bow River.

Daylight's combined oil and NGLs price during Q4 2009 was $68.14 per bbl, 12% higher than Q3 2009 and 36% higher than Q4 2008. Daylight's combined oil and NGLs price for 2009 was $59.26 per barrel, a decrease of 33% from the 2008 combined oil and NGLs price of $87.89 per barrel.

The impact of derivative contracts is recorded within Daylight's gain (loss) on financial instruments. As at December 31, 2009, Daylight had derivative contracts in place for a portion of natural gas production volumes for the period January 1, 2010 to August 31, 2010. Subsequent to year-end, Daylight entered into derivative contracts on additional natural gas production from April 1, 2010 to March 31, 2011. Please

refer to the "Financial Instruments" section of this MD&A for further details.

Daylight's realized prices are expected to continue to correlate with market prices through 2010.

Revenue

(000s)	Q4 2009	Q3 2009	Q4 2008	Year ended December 31 2009	Year ended December 31 2008
Natural gas	**$ 59,759**	$ 28,088	$ 54,048	**$ 161,973**	$ 236,527
Light oil	**67,676**	21,263	20,782	**125,102**	169,681
Heavy oil	**11,762**	11,453	11,635	**41,315**	65,498
NGLs	**17,498**	5,296	4,846	**32,947**	30,031
Total	**$ 156,695**	$ 66,100	$ 91,311	**$ 361,337**	$ 501,737

Revenue for Q4 2009 increased significantly for natural gas, light oil and NGLs compared with Q3 2009 with the acquisition of Highpine on October 8, 2009. Natural gas sales for Q4 2009 were $59.8 million, an increase of 113% from Q3 2009. Light oil sales for Q4 2009 were $67.7 million, up 218% from Q3 2009. Heavy oil sales for Q4 2009 were $11.8 million, up 3% from Q3 2009, and NGLs sales for Q4 2009 were $17.5 million up 230% from Q3 2009. Total revenue increased 72% in Q4 2009 from Q4 2008, due to increased production volumes from the Highpine acquisition and higher oil and NGL pricing offset by lower natural gas prices. For the 2009 year, Daylight realized a 32% decrease in natural gas revenue, a 26% decrease in light oil revenue, a 37% decrease in heavy oil revenue and a 10% increase in NGL revenue resulting in a 28% decrease in total revenue over the 2008 year.

Royalties

Royalty payments are made to the owners of the mineral rights on leases, which include provincial governments (Crown) and freehold landowners, as well as to other third parties by way of contractual overriding royalties.

In Alberta, royalties on natural gas and NGLs are charged by the government based on an established monthly Reference Price. The Reference Price is meant to reflect the average price for natural gas and NGLs in Alberta. Gas cost allowance, custom processing credits and other incentive programs reduce the effective royalty rate.

Overriding royalties are generally paid to third parties where Daylight has entered into agreements to earn an interest in their mineral rights by investing capital in their property.

Oil royalty rates are generally a function of production rates on a per well basis and prices. They are also subject to certain reductions and incentives. Oil Crown royalties in Alberta are generally satisfied by delivering the required volume of oil to the Alberta provincial government.

Royalties by type (000s)	Q4 2009	Q3 2009	Q4 2008	Year ended December 31 2009	Year ended December 31 2008
Crown royalties	**$ 37,033**	$ 7,698	$ 15,315	**$ 64,319**	$ 76,539
Freehold royalties	**1,334**	1,179	1,288	**4,757**	9,790
Overriding royalties	**3,812**	1,650	2,211	**8,979**	11,935
Total	**$ 42,179**	$ 10,527	$ 18,814	**$ 78,055**	$ 98,264
$ per boe	**$ 12.00**	$ 4.87	$ 9.35	**$ 7.94**	$ 12.76
% of revenue	**26.9**	15.9	20.6	**21.6**	19.6

Royalties by commodity (000s)		Q4 2009		Q3 2009		Q4 2008		Year ended December 31 2009		2008
Natural gas	$	**3,472**	$	(443)	$	10,195	$	**13,465**	$	40,668
Oil and NGLs		**38,707**		10,970		8,619		**64,590**		57,596
Total	$	**42,179**	$	10,527	$	18,814	$	**78,055**	$	98,264
Natural gas ($/boe)	$	**1.66**	$	(0.29)	$	8.05	$	**2.08**	$	8.68
Oil and NGLs ($/boe)		**27.21**		17.55		11.56		**19.20**		19.09
Total ($/boe)	$	**12.00**	$	4.87	$	9.35	$	**7.94**	$	12.76
Natural gas (% of revenue)		**5.8**		(1.6)		19.0		**8.3**		17.2
Oil and NGLs (% of revenue)		**39.9**		28.9		23.1		**32.4**		21.7
Total (% of revenue)		**26.9**		15.9		20.6		**21.6**		19.6

Overall royalty rates increased to 26.9% of revenue in Q4 2009 from 15.9% of revenue in Q3 2009. Daylight's royalty rate as a percentage of revenue increased due to the acquisition of Highpine which had higher corporate royalties. As well, the acquisition increased Daylight's weighting to light oil and NGLs which, due to the current pricing environment, experience significantly higher royalties than natural gas. Natural gas Crown royalties remained low at 5.8% of natural gas revenue in Q4 2009 due to low natural gas prices coupled with additional gas cost allowance credits and increased unit operating cost credits received during Q4 2009. Daylight received gas cost allowance credits of approximately $5.1 million during Q3 2009 resulting in a royalty recovery of $0.4 million or 1.6% of revenue for Q3 2009. Had these credits not been received, Daylight's natural gas royalty rate for Q3 2009 would have been 16.6%. Oil and NGLs royalty rates increased to 39.9% of revenue during Q4 2009 as compared to 28.9% of revenue in Q3 2009 due to increased light oil production, primarily driven by acquired Highpine volumes, combined with higher light oil prices. Total royalty rates increased to 26.9% of revenue for Q4 2009 compared with 20.6% of revenue for Q4 2008. Year over year, total royalty rates increased to 21.6% of revenue for 2009 from 19.6% of revenue for 2008, due to the changes in royalty programs and the addition of Highpine higher corporate royalty volumes.

On October 25, 2007, the Alberta government introduced a proposed New Royalty Framework ("NRF") which took effect January 1, 2009. On April 10, 2008, the Alberta Government announced revisions to the NRF to increase royalty rates on conventional and non-conventional oil and natural gas production whereby royalty rates may increase to maximum rates of 50%, to introduce broader ranges of commodity prices in its sliding scale royalty calculations, and to eliminate royalty incentive and holiday programs with the exception of specific programs relating to deep oil and natural gas drilling, innovative technology and enhanced recovery programs. Subsequent to the legislation of the NRF in November 2008, the Transitional Royalty Plan ("TRP") was introduced in response to the economic downturn and declining commodity prices. The TRP offers reduced royalty rates for wells drilled on or later than November 19, 2008 which meet certain depth criteria. The TRP is in place for a maximum period of five years up to December 31, 2013.

On March 3, 2009, an incentive program (the "Energy Incentive Program") designed to encourage the execution of new drilling projects in Alberta was announced in response to the slowdown in drilling activity throughout the province of Alberta. The Energy Incentive Program provides for a drilling royalty credit for new conventional oil and natural gas wells that initiate drilling on or after April 1, 2009 and that complete drilling by March 31, 2010. The drilling credit is based on a $200 per meter credit on total meters drilled with a cap based on production levels and Alberta Crown royalties paid. The Energy Incentive Program also provides a reduced royalty rate of 5% on new wells for the first year of production up to an established total production volume. On June 25, 2009, the Alberta government extended the Energy Incentive Program by one year to March 31, 2011.

Approximately 95% of Daylight's reserves and production are in Alberta, with the balance located in British Columbia and Saskatchewan. Approximately 88% of current production is subject to Crown royalties, which are affected directly by the government royalty programs, and the remaining 12% of Daylight's 2009 royalties are related to freehold and override charges, which are not directly affected by these programs. Consequently, the NRF, TRP and the new Energy Incentive Program will impact Daylight's royalty rates, the effect of which is dependent upon commodity prices.

Future reserve and production addition activities are expected to be significantly impacted by changes to the royalty system. The Trust's depth of prospect inventory allows Daylight to select capital expenditure programs that provide the greatest value to our unitholders in the context of the expected change to the royalty system.

Financial Instruments

Financial instruments comprise accounts receivable, investments, accounts payable and accrued liabilities, derivative contracts, cash distributions payable, bank debt, and convertible debentures. Unless otherwise noted, carrying values reflect the current fair value of the Trust's financial instruments due to the short term to maturity. The Trust's investments held for trading include the common shares of Midway Energy Ltd., Insignia Energy Ltd. and Dorado Energy Inc. (see "Investments" section below). The Trust also has an equity investment in Bengal Energy Ltd. ("Bengal") (see "Investments" section below). The investments held for trading have a fair value based on quoted market values of $4.6 million as at December 31, 2009. During Q4 2009, Daylight experienced a $1.0 million unrealized gain on these investments held for trading and a $1.1 million unrealized gain in Q3 2009. The investment in Bengal has a fair value based on quoted market value of $6.7 million as at December 31, 2009. At December 31, 2008, the investment in Bengal was written down to its market value of $1.4 million. For the year ended December 31, 2009 the equity loss on the investment in Bengal was $0.8 million (2008 - $1.9 million).

The Trust's long-term debt bears interest at a floating market rate and accordingly, the fair market value approximates the carrying value. The convertible debentures outstanding at December 31, 2009, with a face value of $128.7 million, had a fair value based on quoted market value of $150.0 million. On January 5, 2010, Daylight issued $172.5 million principal amount of 6.25% Convertible Unsecured Subordinated Debentures, Series D for net proceeds of $165.6 million. The convertible debentures outstanding at March 2, 2010, with a face value of $301.0 million, had a fair value based on quoted market value of $344.0 million.

The Trust may enter into financial or commodity derivative contracts to manage commodity prices, foreign exchange and interest rate risk. The current 12 month forward strip for AECO natural gas is approximately $5.20 per mcf and WTI oil is approximately US$81.80 per barrel which is equivalent to approximately $84.80 Canadian per barrel.

As at December 31, 2009, Daylight had the following derivative contract in place:

Type of Contract	Commodity	Hedged Volume (2)	Hedge Price	Hedge Period
Financial (Collar) (1)	Natural gas	5,000 GJ/d	Cdn$4.78 - $7.00/GJ	Jan 1/10 to Aug 31/10

(1) Collar price indicates floor (minimum) and ceiling (maximum).

(2) A GJ converts to a mcf at the rate of 1.055056 GJs per mcf.

Subsequent to December 31, 2009, Daylight entered into the following derivative contracts:

Type of Contract	Commodity	Hedged Volume (2)	Hedge Price	Hedge Period
Financial (Swap) (1)	Natural gas	5,000 GJ/d	Cdn$5.72/GJ	Apr 1/10 to Mar 31/11
Financial (Swap) (1)	Natural gas	30,000 GJ/d	Cdn$5.69/GJ	Apr 1/10 to Mar 31/11
Financial (Swap) (1)	Natural gas	10,000 GJ/d	Cdn$5.695/GJ	Apr 1/10 to Mar 31/11

(1) Swap indicates fixed price payable to Daylight in exchange for floating price payable to counterparty.

(2) A GJ converts to a mcf at the rate of 1.055056 GJs per mcf.

Financial or commodity derivative contracts used to manage risk are subject to periodic settlements throughout the term of the instruments. Such settlements may result in a gain or loss which is recognized as a realized derivative gain or loss at the time of settlement. The mark-to-market value of a derivative contract outstanding at the end of a reporting period reflects the value of the derivative contracts based upon market conditions existing as of that date. Any change in value from that determined at the end of the prior period is recognized as an unrealized gain or loss on derivative contracts.

(000s)	Q4 2009	Q3 2009	Q4 2008	Year ended December 31 2009	Year ended December 31 2008
Realized gain (loss) on derivative contracts	**$ 17,421**	$ 32,282	$ 12,230	**$ 105,036**	$ (6,514)
Realized loss on sale of investment	**(4,354)**	-	-	**(4,354)**	-
Unrealized gain (loss) on derivative contracts	**(19,061)**	(24,173)	52,933	**(74,076)**	71,535
Unrealized gain (loss) on investments held for trading	**5,761**	1,073	(4,592)	**6,680**	(5,543)
Gain (loss) on financial instruments	**$ (233)**	$ 9,182	$ 60,571	**$ 33,286**	$ 59,478

($ per boe)	Q4 2009	Q3 2009	Q4 2008	Year ended December 31 2009	Year ended December 31 2008
Realized gain (loss) on derivative contracts	**$ 4.96**	$ 14.93	$ 6.08	**$ 10.69**	$ (0.85)
Realized loss on sale of investment	**(1.24)**	-	-	**(0.44)**	-
Unrealized gain (loss) on derivative contracts	**(5.42)**	(11.18)	26.32	**(7.54)**	9.29
Unrealized gain (loss) on investments held for trading	**1.64**	0.50	(2.28)	**0.68**	(0.72)
Gain (loss) on financial instruments	**$ (0.07)**	$ 4.25	$ 30.11	**$ 3.39**	$ 7.72

Daylight recognized a realized gain of $17.4 million in Q4 2009 on its derivative contracts compared to a $32.3 million realized gain in Q3 2009 and a $12.2 million realized gain in Q4 2008. In Q4 2009, Daylight disposed of its units of Harvest Energy Trust (see "Investments" section below). The realized loss on sale of investment of $4.4 million includes the loss on this investment from the time Daylight acquired the investment to the time of disposition. During the 2009 year, the net charge to income for the sale of this investment was $0.2 million with a reversal of previously recorded unrealized losses on investment of $4.2 million. During Q4 2009, the net increase to income for the sale of this investment was $0.1 million with a reversal of previously recorded unrealized losses on investment of $4.5 million. Daylight experienced a $19.1 million unrealized loss on its derivative contracts during Q4 2009 compared to a $24.2 million unrealized loss in Q3 2009 and a $52.9 million unrealized gain during the same period last year. For the year ended December 31, 2009, Daylight recorded a gain on financial instruments of $33.3 million including a realized gain of $105.0 million on its derivative contracts, compared to a $59.5 million gain for 2008, which included a $6.5 million realized loss on derivative contracts. As at December 31, 2009, the unrealized gain on derivative contracts was $0.2 million.

Operating Expenses

Operating expenses include activities in the field required to operate wells and facilities, lift to surface, gather, process, treat and store production.

(000s)	Q4 2009	Q3 2009	Q4 2008	Year ended December 31 2009	2008
Operating expenses	$ 40,526	$ 25,179	$ 24,038	$ 115,021	$ 92,337
$ per boe	$ 11.53	$ 11.65	$ 11.95	$ 11.71	$ 11.99

Daylight's operating costs during Q4 2009 decreased 1% to $11.53 per boe as compared to Q3 2009 at $11.65 per boe and were 4% lower than Q4 2008, at $11.95 per boe. Daylight's 2009 operating expense on a boe basis, decreased 2% to $11.71 per boe from $11.99 per boe in 2008. Daylight's operating costs per boe decreased in Q4 2009 with the acquisition of Highpine. Daylight expects its operating costs to continue to decrease during 2010 to between $10.50 and $11.00 per boe due to Daylight's addition of production volumes from areas with lower operating costs per boe.

Transportation Expenses

Transportation expenses are defined by the point of legal custody transfer of the commodity and are influenced by the nature of the production, location, availability of transportation and the sales point. The cost of delivering production to the custody transfer point is shown separately as transportation expense.

Daylight generally sells its light oil and NGLs production at the lease with the purchaser taking legal custody of the oil and paying a price for the oil at that delivery point. Daylight's heavy oil, and a small portion of its light oil production, are delivered to a terminal by truck and as such, bear trucking charges which are a transportation expense. Natural gas is usually transported to an established delivery point such as AECO in Alberta and then transferred to the purchaser. Transportation expense decreased 21% to $0.89 per boe in Q4 2009 compared to $1.12 per boe in Q3 2009 and decreased 26% compared to $1.20 per boe in Q4 2008. The decrease is due to the addition of Highpine production volumes that experience lower transportation costs per boe. On a year to date basis, transportation costs decreased 4% in 2009 to $1.02 per boe from the 2008 rate of $1.06 per boe.

(000s)	Q4 2009	Q3 2009	Q4 2008	Year ended December 31 2009	2008
Transportation expenses	$ 3,112	$ 2,424	$ 2,423	$ 10,047	$ 8,202
$ per boe	$ 0.89	$ 1.12	$ 1.20	$ 1.02	$ 1.06

Operating Netbacks

The following table provides detail regarding Daylight's operating netbacks on a per boe basis.

$ per boe	Q4 2009	Q3 2009	Q4 2008	Year ended December 31 2009	2008
Petroleum and natural gas revenues	$ 44.59	$ 30.58	$ 45.40	$ 36.77	$ 65.14
Royalties	(12.00)	(4.87)	(9.35)	(7.94)	(12.76)
Realized gain (loss) on derivative contracts	4.96	14.93	6.08	10.69	(0.85)
Operating expenses	(11.53)	(11.65)	(11.95)	(11.71)	(11.99)
Transportation expenses	(0.89)	(1.12)	(1.20)	(1.02)	(1.06)
Operating netback	$ 25.13	$ 27.87	$ 28.98	$ 26.79	$ 38.48

General and Administrative Expenses

The following tables provide detail regarding Daylight's general and administrative expenses ("G&A") on a total and per boe basis.

(000s)	Q4 2009	Q3 2009	Q4 2008	Year ended December 31 2009	Year ended December 31 2008
Gross G&A	**$ 16,705**	$ 7,637	$ 8,277	**$ 43,685**	$ 32,144
Operating recoveries	**(1,148)**	(738)	(1,579)	**(4,322)**	(7,170)
Capitalized costs	**(4,534)**	(1,965)	(2,215)	**(11,404)**	(8,095)
G&A – cash charge	**11,023**	4,934	4,483	**27,959**	16,879
Unit-based compensation	**1,360**	1,232	815	**4,787**	5,946
Net G&A	**$ 12,383**	$ 6,166	$ 5,298	**$ 32,746**	$ 22,825

$ per boe	Q4 2009	Q3 2009	Q4 2008	Year ended December 31 2009	Year ended December 31 2008
Gross G&A	**$ 4.75**	$ 3.53	$ 4.12	**$ 4.45**	$ 4.17
Operating recoveries	**(0.33)**	(0.34)	(0.79)	**(0.44)**	(0.93)
Capitalized costs	**(1.29)**	(0.91)	(1.10)	**(1.16)**	(1.05)
G&A – cash charge	**3.14**	2.28	2.23	**2.85**	2.19
Unit-based compensation	**0.39**	0.57	0.41	**0.49**	0.77
Net G&A	**$ 3.52**	$ 2.85	$ 2.64	**$ 3.33**	$ 2.96

General and administrative expenses during Q4 2009 were $12.4 million ($3.52 per boe) including non-cash unit-based compensation of $1.4 million ($0.39 per boe). General and administrative expenses for Q3 2009 were $6.2 million ($2.85 per boe) including non-cash unit-based compensation of $1.2 million ($0.57 per boe). G&A expenses for Q4 2008 were $5.3 million ($2.64 per boe) including non-cash unit-based compensation of $0.8 million ($0.41 per boe). The Q4 2009 G&A cash expenses were $0.86 per boe higher than Q3 2009 and $0.91 per boe higher than Q4 2008 due to bonuses accrued in the quarter related to 2009 performance including the successful acquisition of Highpine. Daylight's 2009 G&A cash expenses of $28.0 million were higher than the 2008 G&A cash expenses of $16.9 million due to the acquisition of Highpine in Q4 2009 representing a 30% increase per boe year over year and increased compensation costs. Including non-cash unit-based compensation, G&A expenses for 2009 increased 43% over 2008, which represented a 13% increase per boe year over year. During 2009, trust units issued under the Employee Unit Ownership Plan and the Employee Bonus Plan were acquired in the open market and recorded as cash G&A expenses as compared to 2008 when trust units were issued from treasury and included in non-cash unit-based compensation.

Unit-based compensation expense is an allocation of the fair value of Restricted Trust Unit Awards ("RTUs") and Performance Trust Unit Awards ("PTUs") over their vesting period starting at the date of grant. Unit-based compensation expense also includes amounts related to the Employee Bonus Plan and Employee Unit Ownership Plan that were settled in units issued from treasury. The Q4 2009 unit-based compensation expense per boe was 32% lower than Q3 2009 and 5% lower than Q4 2008 due to the additional production volumes added on the Highpine transaction. No trust units were issued under the Employee Bonus Plan or the Employee Unit Ownership Plan during 2009 and the trust units provided under these plans have been acquired through open market purchases with the cost included in G&A cash expenses.

Related Party Transactions

Daylight and Midnight Oil Exploration Ltd. ("MOX") are considered related, as Daylight's Chairman is a director and officer of MOX. In addition, Daylight's Chief Executive Officer and director is also a director of MOX and Daylight's Corporate Secretary is also MOX's Corporate Secretary. Daylight and MOX are joint venture partners in certain properties, and as a result, revenues and costs related to these properties are allocated to each partner under standard joint venture billing arrangements. Each partner's costs and revenues are based on the exchange amounts which reflect actual third party costs incurred and revenue received. All transactions are conducted under standard business terms and are considered within the normal course of Daylight's business activities and operations. In addition, certain administrative services

which provide reasonable economy and do not involve competitive issues are provided to MOX by Daylight on a fixed fee basis negotiated by the parties, which is considered comparable to the fee an independent third party would charge for the services, and may be cancelled by either party.

For the year ended December 31, 2009, Daylight charged MOX $0.7 million (2008 - $1.5 million) for premises costs with a payable balance, which includes joint venture and commodity marketing amounts of approximately $4.8 million due to MOX as at December 31, 2009 (2008 - $2.8 million). At December 31, 2009, MOX held an advance capital deposit of $3.2 million (2008 - $3.9 million) in conjunction with normal course oil and gas drilling activities.

On October 31, 2008, Daylight acquired from MOX certain petroleum and natural gas assets in the West Central area and entered a farmin arrangement on over 40 gross sections of land in the Elmworth and Peace River Arch areas in exchange for 3.75 million Daylight units and $2.0 million cash. Based on the exchange amount of $7.17 per unit, total consideration for the petroleum and natural gas assets was $28.9 million. The effective date of the purchase was October 1, 2008 and results from operations are included with those of the Trust commencing October 31, 2008. Results from operations and capital expenditures incurred from the effective date of October 1, 2008 to the closing date of October 31, 2008 have been recorded as an adjustment to the purchase equation. (See the "Capital Expenditures, Acquisitions and Divestitures" section of this MD&A.)

Financial Charges

Daylight incurs cash interest expense on its outstanding bank debt and convertible debentures. Daylight's effective bank debt interest rate was 3.1% for Q4 2009 as compared to 3.0% for Q3 2009 and 3.8% for Q4 2008. The effective bank debt interest rate was 2.8% for 2009 (2008 – 4.5%). Daylight's bank debt interest rate is expected to continue to correlate with market interest rates during 2010. On December 19, 2008, Daylight issued $75 million principal amount of 10% Convertible Unsecured Subordinated Debentures, Series C ("Series C Debentures") for net proceeds of $71.7 million (see "Liquidity and Capital Resources" section below). On October 3, 2007, Daylight issued $125 million principal amount of 8.5% Convertible Unsecured Subordinated Debentures, Series B ("Series B Debentures") for net proceeds of $119.6 million. On October 21, 2004, Daylight issued $80 million principal amount of 8.5% Convertible Unsecured Subordinated Debentures, Series A ("Series A Debentures") for net proceeds of $76.8 million. The Series A Debentures matured on December 1, 2009. Daylight settled the Debentures for a cash payment of $3.6 million. As such, there will no further interest expense related to these Debentures. Series B Debentures have a fixed interest rate of 8.5%. Series C Debentures have a fixed interest rate of 10.0%. On January 5, 2010, Daylight issued $172.5 million of 6.25% Convertible Unsecured Subordinated Debentures, Series D for net proceeds of $165.6 million. The Series D debentures have a fixed interest rate of 6.25% which will be incurred beginning Q1 2010. Cash financial charges are influenced by both the interest rate and the level of debt outstanding.

Non-cash financial charges relate to amortization of costs incurred to establish bank credit facilities and issue convertible debentures as well as the accretion of the convertible debenture discount. Q4 2009 financial charges remained relatively flat with compared to Q3 2009. Financial charges in Q4 2009 increased over Q4 2008 due to the increase in the convertible debenture interest and higher average bank debt outstanding offset by a lower average interest rate. The decrease in total financial charges for 2009 from 2008 is principally due to the decrease in the interest rate on bank debt and a lower average bank debt outstanding due to the issuance of the Series C Debentures in December 2008 and the unit financing in May 2009.

(000s)	Q4 2009	Q3 2009	Q4 2008	Year ended December 31 2009	2008
Bank debt interest	**$ 3,016**	$ 1,955	$ 2,237	**$ 8,179**	$ 12,483
Convertible debenture interest	**2,098**	3,118	1,471	**11,351**	8,644
Cash financial charges	**5,114**	5,073	3,708	**19,530**	21,127
Amortization of financial charges	**18**	28	27	**100**	108
Accretion of convertible debenture discount	**706**	704	274	**2,773**	1,331
Total	**$ 5,838**	$ 5,805	$ 4,009	**$ 22,403**	$ 22,566

$ per boe	Q4 2009	Q3 2009	Q4 2008	Year ended December 31 2009	2008
Bank debt interest	**$ 0.86**	$ 0.91	$ 1.11	**$ 0.83**	$ 1.62
Convertible debenture interest	**0.60**	1.44	0.73	**1.16**	1.12
Cash financial charges	**1.46**	2.35	1.84	**1.99**	2.74
Amortization of financial charges	**0.01**	0.01	0.01	**0.01**	0.01
Accretion of convertible debenture discount	**0.20**	0.33	0.14	**0.28**	0.17
Total	**$ 1.66**	$ 2.68	$ 1.99	**$ 2.28**	$ 2.92

Depletion, Depreciation and Accretion

Daylight's depletion, depreciation and accretion for Q4 2009 totalled $80.0 million, which is 74% higher than Q3 2009. Q4 2009 charges increased 97% from Q4 2008. These increases are due to the acquisition of Highpine increasing reserves and production. Daylight's depletion, depreciation and accretion for 2009 totalled $213.1 million, which is 40% higher than the 2008 total of $151.8 million.

(000s)	Q4 2009	Q3 2009	Q4 2008	Year ended December 31 2009	2008
Depletion and Depreciation	**$ 79,174**	$ 45,064	$ 39,907	**$ 209,993**	$ 149,163
Accretion	**824**	837	630	**3,155**	2,624
Total	**$ 79,998**	$ 45,901	$ 40,537	**$ 213,148**	$ 151,787

$ per boe	Q4 2009	Q3 2009	Q4 2008	Year ended December 31 2009	2008
Depletion and Depreciation	**$ 22.53**	$ 20.84	$ 19.84	**$ 21.37**	$ 19.37
Accretion	**0.23**	0.39	0.31	**0.32**	0.34
Total	**$ 22.76**	$ 21.23	$ 20.15	**$ 21.69**	$ 19.71

Future Taxes

Daylight recorded a future income tax reduction of $20.1 million in Q4 2009, a future income tax reduction of $13.7 million in Q3 2009, and a future income tax expense of $7.3 million in Q4 2008. For 2009, Daylight recorded a future income tax reduction of $54.1 million and a future income tax expense of $5.5 million for 2008. Daylight is a taxable entity under the Canadian Income Tax Act and is currently taxable only on income that is not distributed or distributable to its unitholders.

Daylight does not currently expect to pay any income taxes until at least 2011.

(000s)	Q4 2009	Q3 2009	Q4 2008	Year ended December 31 2009	2008
Future Tax	**$ (20,148)**	$ (13,678)	$ 7,333	**$ (54,054)**	$ 5,481
$ per boe	**$ (5.73)**	$ (6.33)	$ 3.65	**$ (5.50)**	$ 0.71

As at December 31, 2009, Daylight and its subsidiaries have tax pools of approximately $1.4 billion. These tax pool balances are subject to change as tax returns are completed, annual claims are made, and reclassification of items between categories may occur.

(000s)	2009 Corporate	Trust	Combined	2008 Combined
Canadian exploration expense	$ 243,000	$ -	**$ 243,000**	$ 65,000
Canadian development expense	337,000	-	**337,000**	251,000
Canadian oil and gas property expense	176,000	82,000	**258,000**	134,000
Undepreciated capital cost	325,000	-	**325,000**	220,000
Non-capital losses	259,000	-	**259,000**	228,000
Net capital losses	2,000	-	**2,000**	-
Cumulative eligible capital	2,000	-	**2,000**	4,000
Share and unit issue costs	1,000	12,000	**13,000**	9,000
Total	$1,345,000	$ 94,000	**$1,439,000**	$ 911,000

The non-capital losses in the table above have been reduced for the impact of our tax deferred partnership income of $252.8 million. The deferred partnership income is taxable in 2010 but has been included as a reduction to tax pool balances in 2009 as the Trust recognizes tax pools will be required to reduce this taxable income to nil.

On June 22, 2007, income tax legislation was passed resulting in tax on the distributions of publicly traded income trusts, referred to as Specified Investment Flow-Through ("SIFT Tax") entities, commencing in 2011. Under this legislation, income trust distributions will be subject to a two tier tax structure, similar to that of corporations, whereby distributions paid to unitholders, other than returns of capital, will be subject to tax at the trust level and at the unitholder level. On March 12, 2009, The Department of Finance of Canada passed legislation (the SIFT conversion rules) that will facilitate the restructuring of income trusts into corporations by permitting a conversion to be a non-taxable exchange for both the unitholders and the trust.

On March 12, 2009, new legislation was passed to change the provincial tax rate on income trusts from 13% per the SIFT Tax to the blended provincial tax rate in each province, which for the province of Alberta is currently 10%. Due to this change in legislation, Daylight recorded a future tax expense of $0.9 million at the Trust level in Q1 2009. A reduction in rate would normally cause a future tax reduction; however, due to the Trust being in a future tax asset position, the change resulted in an expense.

On January 5, 2010, the Trust closed its Convertible Debenture Series D financing. This closing may accelerate the Trust becoming subject to the SIFT Tax. If the Trust becomes subject to the SIFT Tax, distributions to unitholders will no longer be deductible by the Trust for tax purposes. In the event that the Trust becomes subject to the SIFT tax in 2010, the Trust has sufficient tax pools available to reduce cash taxes payable in the period to nil.

Management is of the opinion that the conversion from a trust to a corporation is the most logical and tax efficient alternative for Daylight unitholders. Management is in the process of detailing the steps required to convert to a corporation and is working with tax advisors to further define the process.

A conversion to a corporation will require the approval of Daylight's unitholders, as well as customary court and regulatory approvals. The closing of a conversion requires a unitholder meeting and must be approved by not less than two-thirds of the votes cast by unitholders voting at the meeting. Daylight currently anticipates that the closing of a conversion would occur following its Annual and Special Meeting in May 2010. The intention would be for a conversion to be a non-taxable exchange for both Canadian and U.S. income tax purposes.

Under Canadian GAAP, management anticipates that the conversion would be accounted for on a continuity of interests basis. Under the continuity of interests method of accounting, the corporation would be recognized as the successor entity to the Trust and the Consolidated Financial Statements would reflect the financial position, results of operations and cash flows as if the corporation had always carried on the business formerly carried on by the Trust. Terms such as shareholder, unitholder, dividend and distribution would be used interchangeably throughout the Consolidated Financial Statements and MD&A.

As a corporation, Daylight expects to continue to allocate its funds from operations to capital expenditures, periodic debt repayments, asset retirement obligations and dividends. Taxable income as a corporation will vary depending on total income and expenses which will vary with commodity prices, costs, claims for both accumulated tax pools and tax pools associated with current year expenditures. Current taxes payable will be subject to normal corporate tax rates. Because Daylight has accumulated over $1.4 billion of tax pools at December 31, 2009, taxable income is expected to be nil for several years following conversion. Tax pools are deductible at various rates and annual deductions associated with the initial tax pools are expected to decline over time.

Returns to shareholders are not expected to be impacted by Daylight's requirement to pay current taxes, if any, for several years following conversion. If a conversion from the trust structure to a corporation is approved by unitholders, the income tax payable by unitholders will vary and each unitholder should consult their own tax advisor for details on the direct impact of the change.

Net Income (Loss), Funds from Operations, and Cash Provided by Operating Activities

As a result of the previously discussed factors, Daylight recognized a Q4 2009 net loss of $7.9 million ($2.24 per boe, $0.05 per unit-basic, $0.05 per unit-diluted), funds from operations of $72.2 million ($20.53 per boe, $0.42 per unit-basic, $0.40 per unit-diluted) and cash provided by operating activities of $48.8 million. For the 2009 period, Daylight recognized a net loss of $23.6 million ($2.40 per boe, $0.19 per unit-basic, $0.19 per unit-diluted), funds from operations of $215.8 million ($21.96 per boe, $1.76 per unit-basic, $1.65 per unit-diluted) and cash provided by operating activities of $189.4 million. Actual results from the comparative periods are presented below.

(000s)	**Q4 2009**	Q3 2009	Q4 2008	Year ended December 31 **2009**	2008
Net income (loss)	**$ (7,858)**	$ (7,244)	$ 44,424	**$ (23,574)**	$ 160,519
Per boe	**$ (2.24)**	$ (3.35)	$ 22.09	**$ (2.40)**	$ 20.84
Per Unit					
Basic	**$ (0.05)**	$ (0.06)	$ 0.50	**$ (0.19)**	$ 1.92
Diluted	**$ (0.05)**	$ (0.06)	$ 0.48	**$ (0.19)**	$ 1.80
Funds from operations	**$ 72,162**	$ 50,245	$ 50,075	**$ 215,761**	$ 264,420
Per boe	**$ 20.53**	$ 23.24	$ 24.91	**$ 21.95**	$ 34.33
Per Unit					
Basic	**$ 0.42**	$ 0.41	$ 0.56	**$ 1.76**	$ 3.17
Diluted	**$ 0.40**	$ 0.39	$ 0.52	**$ 1.65**	$ 2.89
Cash provided by operating activities	**$ 48,756**	$ 44,054	$ 47,416	**$ 189,437**	$ 259,759

Daylight's funds from operations are significantly influenced by commodity prices and production volumes.

Daylight's estimated sensitivity in funds flow to changes in its commodity price, production volume and exchange rate assumptions for the full year 2010 are estimated as follows:

- $3.5 million per $0.10 change in natural gas price per mcf.
- $4.1 million per US$1.00 change in the WTI oil price per bbl.
- $0.9 million per 1 mmcf per day change in production.
- $1.4 million per 100 bbl per day change in light oil production.
- $1.7 million per 100 bbl per day change in heavy oil production.
- $1.1 million per 100 bbl per day change in NGLs production.
- $3.2 million per $0.01 change in the United States dollar to Canadian dollar exchange rate.

Capital Expenditures, Acquisitions and Divestitures

Daylight invested $76.9 million on its capital expenditure program during Q4 2009 compared to $10.6 million in Q3 2009 and $38.8 million in Q4 2008. The capital expenditure program continues to provide new production volumes and Daylight anticipates fiscal 2010 production volumes to average between 40,000 and 42,000 boe per day with an investment of approximately $275 million for 2010. For the year ended December 31, 2009, Daylight invested $162.8 million, a decrease of 2% from 2008.

(000s)	**Q4 2009**	Q3 2009	Q4 2008	Year ended December 31 **2009**	2008
Land and acquisitions	**$ 21,168**	$ 469	$ 730	**$ 27,293**	$ 13,425
Geological and geophysical	**4,605**	1,996	2,282	**11,659**	9,053
Drill, complete and recomplete	**41,856**	4,966	24,945	**97,278**	94,984
Equipping and facilities	**9,299**	3,182	10,809	**26,527**	48,457
Capital expenditures	**$ 76,928**	$ 10,613	$ 38,766	**$ 162,757**	$ 165,919
Cash property acquisitions	**-**	-	66,571	**-**	66,571
Disposition of Sturgeon	**-**	-	-	**-**	(87,695)
Net cash capital additions	**76,928**	10,613	105,337	**162,757**	144,795
Non-cash property acquisition	**-**	-	26,887	**-**	26,887
Net capital additions	**$ 76,928**	$ 10,613	$ 132,224	**$ 162,757**	$ 171,682
Corporate acquisitions	**$ 534,278**	$ -	$ -	**$ 658,105**	$ 36,433

In 2009, Daylight drilled a total of 59 gross (25.7 net) wells with 100% success. This program provided production and reserve additions within the following core areas:

- Peace River Arch Properties include Elmworth, Wapiti and Bilbo. In 2009, Daylight drilled 16 gross (8.9 net) natural gas wells.
- West Central properties include Pine Creek, Kaybob, Obed and Oldman. In 2009, Daylight drilled 23 gross (6.5 net) natural gas wells and 2 gross (0.1 net) light oil wells.
- Eastern properties include Wildmere, Caroline and Sylvan Lake. In 2009, Daylight drilled 9 gross (2.9 net) natural gas wells and 9 gross (7.3 net) heavy oil wells.

On October 8, 2009, Daylight acquired all of the issued and outstanding class "A" common shares of Highpine Oil & Gas Limited. As consideration, Daylight paid cash of $46.3 million before transaction costs of $3.5 million and issued 51,413,561 trust units at approximately $8.11 per trust unit, based on Daylight's weighted average trading price at the August 23, 2009 announcement date. The operations of Highpine have been included with the results of Daylight commencing October 8, 2009.

On June 5, 2009, Daylight acquired all of the issued and outstanding shares of Intrepid Energy Corporation. As consideration, Daylight paid cash of $32.0 million before transaction costs of $0.6 million and issued 7,249,937 trust units at a price of approximately $7.40 per trust unit. The unit price was based on the weighted average trading price of the units at the date of announcement being April 27, 2009. The operations of Intrepid have been included with the results of the Trust commencing June 5, 2009.

On December 1, 2008, Daylight acquired certain petroleum and natural gas assets in the Elmworth area for $64.6 million. This acquisition included an allocation of $12.0 million to undeveloped land and seismic and was effective December 1, 2008. Daylight recorded $0.1 million in associated asset retirement obligations.

On October 31, 2008, Daylight acquired from MOX certain petroleum and natural gas assets in the West Central area and entered into a farmin arrangement on over 40 gross sections of land in the Elmworth and Peace River Arch areas in exchange for 3.75 million Daylight units and $2.0 million cash. Based on the exchange amount of $7.17 per unit, total consideration for the petroleum and natural gas assets was $28.9 million. The effective date of the purchase was October 1, 2008 and results from operations are included with those of the Trust commencing October 31, 2008. Results from operations and capital expenditures incurred from the effective date of October 1, 2008 to the closing date of October 31, 2008 have been recorded as an adjustment to the purchase equation. (See the "Related Party Transactions" section of this MD&A.) Daylight recorded $0.9 million in associated asset retirement obligations.

On September 30, 2008, Daylight disposed of its working interests in the Sturgeon Lake petroleum and natural gas property to a third party for cash proceeds of $87.7 million and removed $3.3 million of associated asset retirement obligations.

On September 17, 2008, Daylight acquired all of the issued and outstanding shares of Athlone for cash consideration of $0.85 per share. Total consideration for the transaction was $36.4 million including the assumption of $3.0 million in bank debt and a $3.8 million working capital deficiency.

On May 26, 2008, Daylight and Cadence Energy Inc. ("Cadence") announced that they had entered into an agreement whereby Daylight would acquire all of the issued and outstanding common shares of Cadence, pursuant to a Plan of Arrangement. On July 20, 2008, Daylight and Cadence terminated the arrangement agreement, due to another offer. As a result, Cadence paid Daylight a $9.0 million termination fee which was received on July 21, 2008. This one-time fee, net of transaction costs of $1.2 million, was reported as other income during the third quarter of 2008.

Investments

	Symbol	Number of Shares or Units	**December 31, 2009 Equity or Fair Value**	December 31, 2008 Equity or Fair Value
Bengal Energy Ltd.	BNG	4,260,000	**$ 532**	$ 1,363
Midway Energy Ltd.	MEL	1,046,511	**3,108**	385
Harvest Energy Trust	HTE	-	**-**	537
Insignia Energy Ltd.	ISN	167,688	**366**	-
Dorado Energy Inc.	-	1,080,000	**1,097**	-
Total			**$ 5,103**	$ 2,285

Daylight owns 4,260,000 common shares of Bengal Energy Ltd. ("Bengal"), representing a 23% interest, and accounts for the investment using the equity method. For the year ended December 31, 2009, the equity loss on the investment in Bengal was $0.8 million (2008 - $1.9 million). At December 31, 2008, the investment in Bengal was written down to its market value and the impairment of $3.4 million was charged to net income. As at December 31, 2009, the market value of the investment in Bengal was $6.7 million (2008 - $1.4 million).

Daylight owns 1,046,511 common shares of Midway Energy Ltd. ("Midway"), formerly Trafalgar Energy Ltd., with a value of $3.1 million at December 31, 2009. During the year ended December 31, 2009, Daylight acquired 306,273 common shares of Midway at a cost of $0.70 per share through the exercise of warrants. Daylight accounts for this investment at fair value based on the quoted market price.

Daylight owns 167,688 common shares of Insignia Energy Ltd. ("Insignia") with a value of $0.4 million at December 31, 2009. This investment was acquired through the Highpine acquisition. Daylight accounts for this investment at fair value based on the quoted market price.

Daylight, through the Highpine acquisition, owned 1,080,000 common shares of Dorado Energy Inc. ("Dorado"), a private company, with a value of $1.1 million at December 31, 2009. On January 20, 2010, Wild Stream Exploration Inc. ("Wild Stream"), a publicly traded company, acquired all of the issued and

outstanding common shares of Dorado based on an exchange ratio of 0.2 of a Wild Stream share for each Dorado share held. Daylight also accounts for this investment at its estimated fair value.

Daylight owned 36,600 trust units of Harvest Energy Trust ("Harvest"), formerly Pegasus Oil & Gas Inc. On December 22, 2009, Korea National Oil Corporation acquired all of the issued and outstanding trust units of Harvest Energy Trust for $10.00 per trust unit. Daylight tendered its 36,600 trust units for cash proceeds of $366,000.

Daylight continues to consider its investments in Bengal, Midway, Insignia and Dorado as available for disposition.

Distributions

During Q4 2009, Daylight declared three monthly cash distributions totalling $41.8 million ($0.24 per trust unit) with a resulting payout ratio of 58%. During Q3 2009, Daylight declared three monthly cash distributions totalling $29.4 million ($0.24 per trust unit) with a resulting payout ratio of 58%. During Q4 2008, Daylight declared three cash distributions totalling $35.2 million ($0.39 per trust unit) with a resulting payout ratio of 70%. In 2009, Daylight declared twelve monthly cash distributions totalling $119.1 million ($0.96 per trust unit) with a resulting payout ratio of 55%. In 2008, Daylight declared twelve monthly cash distributions totalling $117.0 million ($1.38 per trust unit) with a resulting payout ratio of 44%.

Daylight's management and the Board of Directors continually monitor the distribution level in relation to forecasted funds from operations, debt levels and capital expenditure programs. Commodity prices and production volumes are critical variables in determining funds from operations and changes in these two items have a material impact on funds from operations and Daylight's ability to fund distributions. Distributions beyond the periods declared are not guaranteed to occur in the future. To the extent that capital expenditures are not fully financed by funds from operations, Daylight may draw upon its available credit facilities or issue new trust units or convertible debentures.

As discussed in the non-GAAP measures section of this MD&A, Daylight utilizes the non-GAAP term "funds from operations" to evaluate operating performance and assess leverage. Daylight considers this term to be an important measure in assessing its ability to generate the funds necessary to pay distributions, repay debt and finance capital expenditures. Funds from operations is also utilized in the calculation of "payout ratio" which is also a non-GAAP measure utilized by Daylight to evaluate financial flexibility and the capacity to fund distributions. National Policy 41-201 requires certain disclosures comparing distributions to cash provided by operating activities which is a GAAP measure. A reconciliation of cash provided by operating activities to funds from operations is included in the non-GAAP measures section of this MD&A. The disclosures required by National Policy 41-201 are contained in the following table and paragraphs of this section of the MD&A.

(000s)	**Q4 2009**	Q3 2009	Q4 2008	Year ended December 31 **2009**	2008
Cash distributions declared per unit	**$ 0.24**	$ 0.24	$ 0.39	**$ 0.96**	$ 1.38
Cash provided by operating activities	**$ 48,756**	$ 44,054	$ 47,416	**$ 189,437**	$ 259,759
Cash distributions declared	**$ 41,811**	$ 29,385	$ 35,193	**$ 119,107**	$ 117,017
Excess of cash provided by operating activities over cash distributions declared:	**$ 6,945**	$ 14,669	$ 12,223	**$ 70,330**	$ 142,742
Net income (loss)	**$ (7,858)**	$ (7,244)	$ 44,424	**$ (23,574)**	$ 160,519
Cash distributions declared	**$ 41,811**	$ 29,385	$ 35,193	**$ 119,107**	$ 117,017
Excess (shortfall) of net income over cash distributions declared:	**$ (49,669)**	$ (36,629)	$ 9,231	**$ (142,681)**	$ 43,502

Cash provided by operating activities of $48.8 million for Q4 2009 exceeded Daylight's cash distributions declared of $41.8 million by $6.9 million. Cash provided by operating activities of $44.1 million for Q3 2009 exceeded cash distributions declared of $29.4 million by $14.7 million. Cash provided by operating

activities of $47.4 million for Q4 2008 exceeded cash distributions declared of $35.2 million by $12.2 million in the period. On a year over year basis, cash provided by operating activities of $189.4 million exceeded the cash distributions of $119.1 million for 2009 by $70.3 million and cash provided by operating activities of $259.8 million exceeded the cash distributions of $117.0 million for 2008 by $142.7 million.

For Q4 2009 and Q3 2009, the cash distributions declared exceeded the net loss of $7.9 million and $7.2 million, respectively, by $49.7 million and $36.6 million respectively. For Q4 2008, net income of $44.4 million exceeded the cash distributions declared by $9.2 million. For the year ended December 31, 2009, the cash distributions declared exceeded the net loss of $23.6 million by $142.7 million. For the year ended December 31, 2008 the net income of $160.5 million exceeded the cash distributions declared by $43.5 million.

Cash distributions declared often exceed net income but do not typically exceed cash provided by operating activities and this relationship is expected to continue for future periods. Daylight has often declared cash distributions in excess of net income since net income includes several non-cash charges including depletion, depreciation and accretion, unit-based compensation, unrealized gain (loss) on financial instruments and future taxes, which do not impact the funds available to pay distributions declared. The depletion, depreciation and accretion charge does not necessarily represent the cost of maintaining and replacing the volume of reserves produced in the period. In those periods where cash distributions exceed net income, a portion of the distribution declared may represent an economic return of capital for unitholders and the distributions declared may be subject to increases or decreases in future periods depending on future circumstances.

Daylight has a Premium Distribution Reinvestment and Optional Trust Unit Purchase Plan ("Premium DRIP™") for eligible unitholders. On distribution payment dates eligible Premium DRIP™ unitholders may receive, in lieu of the cash distribution that unitholders are otherwise entitled to receive in respect of their units, a cash payment equal to 102% of such amount. Unitholders may also reinvest their cash distributions in additional trust units at a price that is 95% of the average market price for the Pricing Period. The Pricing Period refers to the period beginning on the later of the 21st business day preceding the distribution payment date and the second business day following the record date applicable to that distribution payment date, and ending on the second business day preceding the distribution payment date. Eligible Premium DRIP™ unitholders may also make optional cash payments on this date to purchase additional trust units at a price that is equal to the average market price for the Pricing Period. Daylight can prorate or suspend requests for the receipt of amounts under the Premium DRIP™. Daylight has not issued any trust units under the Premium DRIP™ program since August 2007 when Daylight suspended this program.

Liquidity and Capital Resources

(000s)	**December 31, 2009**	September 30, 2009	December 31, 2008
Bank debt	**$ 260,172**	$ 164,172	$ 219,853
Working capital deficiency[1]	**101,482**	31,298	42,275
	361,654	195,470	262,128
Convertible debentures – long-term	**117,897**	117,217	115,201
Market value of investments	**(11,302)**	(4,143)	(2,285)
	468,249	308,544	375,044
Unitholders' equity	**$1,088,600**	$ 719,207	$ 588,932

(1) Excludes unrealized gain (loss) on derivative contracts and future income tax liability.

The Trust continually monitors its financing alternatives and expects to substantially finance its cash capital expenditures program and distributions from internally generated funds from operations over the longer term.

At December 31, 2009, Daylight had $260 million outstanding on its credit facilities which provided up to $500 million available under revolving term credit facilities with a syndicate of banks and are subject to semi-annual review by the banking syndicate. The working capital deficiency does not affect the amount available under the credit facilities. Daylight's banking syndicate reviewed and increased the revolving

term credit facilities to $500 million from $350 million on October 8, 2009 upon close of the Highpine acquisition. The next scheduled review date is April 30, 2010. The available lending limits of the facilities are based on the syndicate's interpretation of the Trust's reserves and future commodity prices. There can be no assurance that the amount of the available facilities will not decrease at the next scheduled review on or before April 30, 2010.

On May 7, 2009, Daylight issued 24,630,000 trust units at a price of $7.00 per trust unit for gross proceeds of $172 million. Net proceeds were used by the Trust to reduce outstanding borrowings under Daylight's credit facilities, fund future growth initiatives and for general corporate purposes.

On December 19, 2008, Daylight issued $75 million principal amount of 10% Convertible Unsecured Subordinated Debentures, Series C for net proceeds of $71.7 million. The Series C Debentures pay interest semi-annually on December 31 and June 30, commencing with the initial interest payment on June 30, 2009 and have a maturity date of December 31, 2013. The Series C Debentures are convertible at the option of the holder to trust units at a conversion price of $9.60 per trust unit. The Trust has the option to redeem the Series C Debentures at a price of $1,050 per Series C Debenture after December 31, 2011 and on or before December 31, 2012 and at a price of $1,025 per Series C Debenture after December 31, 2012 and before the maturity date of December 31, 2013 and at a price of $1,000 per Series C Debenture on maturity.

On January 5, 2010, Daylight issued $172.5 million principal amount of 6.25% Convertible Unsecured Subordinated Debentures, Series D for net proceeds of $165.6 million. The Series D Debentures pay interest semi-annually on December 31 and June 30, commencing with the initial interest payment on June 30, 2010 and have a maturity date of December 31, 2014. The Series D Debentures are convertible at the option of the holder to trust units at a conversion price of $12.00 per trust unit. The Trust has the option to redeem the Series D Debentures at a price of $1,050 per Series D Debenture after December 31, 2012 and on or before December 31, 2013 and at a price of $1,025 per Series D Debenture after December 31, 2013 and before the maturity date of December 31, 2014 and at a price of $1,000 per Series D Debenture on maturity. On redemption or maturity the Trust may elect to repay the principal and satisfy its interest obligations by issuing Daylight trust units.

The market value of Daylight's investments is based on the closing trading value of the related securities at the end of the periods and Daylight's ability to realize this value is subject to changes in the trading value of these securities. Daylight's working capital deficiency, excluding the unrealized gain on derivative contracts and future income tax liability, at December 31, 2009 was $101.5 million.

Management anticipates that Daylight will continue to have adequate liquidity to fund future working capital and forecasted capital expenditures during 2010 through funds from operations and/or debt and equity as required. Funds from operations used to finance these expenditures may reduce the amount of funding available to provide cash distributions to unitholders. Major acquisitions will require the issuance of new equity and/or convertible debentures.

On July 22, 2008, one of Daylight's minor oil marketing and natural gas processing counterparties, SemCanada entered creditor protection. As of that date, Daylight had a receivable from certain subsidiaries of SemCanada of approximately $1.8 million. As of December 31, 2008, Daylight considered collection of this receivable at risk and as such, provided an allowance for doubtful accounts of $1.8 million. During 2009, Daylight settled its claim with SemCanada and recovered $0.1 million. Daylight's management has concluded that its existing credit risk program remains appropriate and has concluded that these events could not have been foreseen by a standard credit risk program. Daylight continues its regular review of purchasers against its credit risk program to ensure credit worthiness given current market conditions.

Trust Unit Information

Daylight's trust units trade on the Toronto Stock Exchange under the symbol "DAY.UN" and Daylight is a constituent of the S&P/TSX Income Trust Index and S&P/TSX Composite Index. A summary of Daylight's trading history on the TSX follows.

(per unit)	**Q4 2009**	Q3 2009	Q4 2008	Year ended December 31 **2009**	2008
High	**$ 10.30**	$ 9.13	$ 10.24	**$ 10.30**	$ 13.45
Low	**$ 8.11**	$ 7.02	$ 6.00	**$ 5.12**	$ 6.00
Close	**$ 10.19**	$ 8.50	$ 7.81	**$ 10.19**	$ 7.81
Average daily volume	**1,131,741**	1,103,624	669,264	**918,648**	698,355

On October 22, 2009 Daylight filed notice with the Toronto Stock Exchange (the "TSX") to make a normal course issuer bid (the "2009 Bid") to purchase outstanding trust units on the open market through the facilities of the TSX. The TSX has authorized Daylight to purchase up to 17,102,157 trust units, being 10% of the public float, from October 26, 2009 through October 25, 2010 or such earlier time as the 2009 Bid is completed or terminated at the option of the Trust. The Trust will pay for any trust units acquired under the 2009 Bid at the prevailing market price on the TSX at the time of the purchase. The Trust Units acquired under the 2009 Bid will be cancelled.

On July 28, 2008, Daylight filed notice with the TSX to make a normal course issuer bid (the "2008 Bid") to purchase outstanding trust units on the open market through the facilities of the TSX. The TSX authorized Daylight to purchase up to 8,206,753 trust units, being 10% of the public float, from July 30, 2008 through July 29, 2009 or such earlier time as the 2008 Bid was completed or terminated at the option of the Trust. The Trust paid for any trust units acquired under the 2008 Bid at the prevailing market price on the TSX at the time of the purchase and any trust units acquired under the 2008 Bid were cancelled. For the year ended December 31, 2009, no trust units were purchased and cancelled. For the year ended December 31, 2008, Daylight purchased and cancelled 386,200 units at a cost of $3.9 million. The average carrying value of the units repurchased of $5.2 million was charged to unitholders' capital with the excess of $1.3 million charged to contributed surplus.

As at December 31, 2009, Daylight had the following trust units and trust unit equivalents outstanding:

	Number
Trust units	174,216,164
Convertible debentures Series B ($53,737,000 face value)	6,248,488
Convertible debentures Series C ($74,980,000 face value)	7,810,417
Restricted Trust Unit Awards (851,634)	1,081,865
Performance Trust Unit Awards (405,249)	474,502
Total Diluted	189,831,436

On December 1, 2009, the Series A convertible debentures matured. The Trust elected to repay the principal and satisfy its interest obligations in cash.

As at March 2, 2010, Daylight has the following trust units and trust unit equivalents outstanding:

	Number
Trust units	174,236,243
Convertible debentures Series B ($53,567,000 face value)	6,228,721
Convertible debentures Series C ($74,977,000 face value)	7,810,104
Convertible debentures Series D ($172,500,000 face value)	14,375,000
Restricted Trust Unit Awards (843,502)	1,087,981
Performance Trust Unit Awards (405,249)	481,837
Total Diluted	204,219,886

On January 5, 2010, Daylight issued $172.5 million principal amount of 6.25% Convertible Unsecured Subordinated Debentures, Series D for net proceeds of $165.6 million. The Series D Debentures pay interest semi-annually on December 31 and June 30, commencing with the initial interest payment on June 30, 2010 and have a maturity date of December 31, 2014. The Series D Debentures are convertible

at the option of the holder to trust units at a conversion price of $12.00 per trust unit. The Trust has the option to redeem the Series D Debentures at a price of $1,050 per Series D Debenture after December 31, 2012 and on or before December 31, 2012 and at a price of $1,025 per Series D Debenture after December 31, 2013 and before the maturity date of December 31, 2014 and at a price of $1,000 per Series D Debenture on maturity. On redemption or maturity the Trust may elect to repay the principal and satisfy its interest obligations by issuing Daylight trust units.

Commitments

The following is a summary of Daylight's contractual obligations and commitments as at December 31, 2009:

	2010	2011	2012	2013	2014	Thereafter
Operating leases	$ 5,865	$ 6,674	$ 7,387	$ 6,213	$ 6,187	$ 23,712
Natural gas transportation	4,011	2,794	1,251	739	121	-
Convertible debentures (face value)	-	-	53,737	74,980	-	-
Bank debt	-	260,172	-	-	-	-
	$ 9,876	$ 269,640	$ 62,375	$ 81,932	$ 6,308	$ 23,712

Daylight enters into multiple contractual obligations as part of conducting day-to-day business. Material contractual obligations include bank debt, leases for office space and commitments for natural gas transportation.

Quarterly Financial Information

(000s)	**Q4 2009**	Q3 2009	Q2 2009	Q1 2009
Funds from operations	**$ 72,162**	$ 50,245	$ 48,459	$ 44,895
Per Unit				
Basic	**$ 0.42**	$ 0.41	$ 0.45	$ 0.50
Diluted	**$ 0.40**	$ 0.39	$ 0.42	$ 0.45
Cash provided by operating activities	**$ 48,756**	$ 44,054	$ 49,198	$ 47,429
Net income (loss)	**$ (7,858)**	$ (7,244)	$ (14,543)	$ 6,071
Per Unit				
Basic	**$ (0.05)**	$ (0.06)	$ (0.14)	$ 0.07
Diluted	**$ (0.05)**	$ (0.06)	$ (0.14)	$ 0.07
Petroleum and natural gas revenues	**$ 156,695**	$ 66,100	$ 66,649	$ 71,893
Average daily production combined (boe/d)	**38,197**	23,502	23,047	22,810

(000s)	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Funds from operations	$ 50,075	$ 78,646	$ 77,032	$ 58,667
Per Unit				
Basic	$ 0.56	$ 0.91	$ 0.95	$ 0.75
Diluted	$ 0.52	$ 0.84	$ 0.85	$ 0.66
Cash provided by operating activities	$ 47,416	$ 97,799	$ 71,028	$ 43,516
Net income	$ 44,424	$ 69,692	$ 42,462	$ 3,941
Per Unit				
Basic	$ 0.50	$ 0.81	$ 0.53	$ 0.05
Diluted	$ 0.48	$ 0.76	$ 0.48	$ 0.05
Petroleum and natural gas revenues	$ 91,311	$ 145,269	$ 151,171	$ 113,986
Average daily production combined (boe/d)	21,863	21,782	20,717	19,804

Funds from operations increased steadily throughout 2009 as crude oil prices recovered and total production increased. Q4 2009 funds from operations increased significantly with the acquisition of Highpine. Cash provided by operating activities remained relatively flat throughout the year with a small

decrease in Q3 2009 due to increased asset retirement expenditures. Funds from operations and cash provided by operating activities decreased during Q1 2009 and Q4 2008 versus Q3 2008 due to falling commodity prices. Funds from operations remained relatively flat during Q3 2008 and Q2 2008. During the first half of 2008, funds from operations showed significant increases due to rising commodity prices for crude oil and natural gas resulting in significant increases in revenue. Fluctuating commodity prices resulted in realized gains on commodity contracts in 2009 and losses in 2008. Two transactions affected funds from operations in Q3 2008. Q3 2008 funds from operations was positively impacted by a termination fee of $9.0 million, net of transaction costs of $1.2 million, paid to Daylight by Cadence upon termination of their arrangement agreement. A provision for non-recoverable accounts receivable due from certain subsidiaries of SemCanada, for $1.8 million, negatively impacted Q3 2008 funds from operations.

Net income (loss) has been affected by fluctuations in commodity prices and realized gains and losses on derivative contracts as well as the two transactions in Q3 2008 as discussed above. Net income (loss) has been significantly impacted by non-cash items such as future taxes and unrealized gains and losses on commodity contracts.

Control Environment

Disclosure Controls and Procedures

Daylight's Chief Executive Officer and Chief Financial Officer have designed or caused to be designed under their supervision, disclosure controls and procedures that ensure that information required to be disclosed by Daylight is accumulated and communicated to Daylight's management as appropriate to allow timely decisions regarding required disclosure. Daylight's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by the annual filing, that Daylight's disclosure controls and procedures for the year ended December 31, 2009 are effective to provide reasonable assurance that material information related to Daylight, including its consolidated subsidiaries, is made known to them by others within those entities.

Internal Control Over Financial Reporting

Daylight's Chief Executive Officer and Chief Financial Officer have designed or caused to be designed under their supervision, internal controls over financial reporting related to the Trust, including its consolidated subsidiaries, to provide reasonable assurance regarding the reliability of the Trust's financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. As at December 31, 2009, Daylight's Chief Executive Officer and Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Trust's internal controls over financial reporting and have concluded that these controls are operating effectively.

Daylight's Chief Executive Officer and Chief Financial Officer are required to disclose herein any change in the Trust's internal control over financial reporting that occurred during the Trust's most recent interim period that has materially affected, or is reasonably likely to have materially affected, the Trust's control over financial reporting. No changes in the Trust's internal controls over financial reporting were identified during the year ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Trust's internal controls over financial reporting.

It should be noted that while Daylight's Chief Executive Officer and Chief Financial Officer believe that the Trust's disclosure controls and procedures and internal controls over financial reporting provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures or internal controls over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Critical Accounting Estimates

The significant accounting policies used by Daylight are disclosed in note 1 to the Consolidated Financial Statements for the years ended December 31, 2009 and 2008. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a regular basis. The emergence of new information and changed circumstances may result

in actual results or changes to estimated amounts that differ materially from current estimates.

Reserves

Under the National Instrument 51-101 ("NI 51-101"), "proved" reserves are defined as those reserves that can be estimated with a high degree of certainty to be recoverable. The level of certainty should result in at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves.

"Proved plus probable" reserves are the most likely case and are based on a 50 percent certainty that they will equal or exceed the reserves estimated. The new standard provides for a more conservative evaluation of proved and probable reserves, particularly on new wells where production history has not yet been established.

These oil and gas reserve estimates are made using all available geological and reservoir data, as well as historical production data. All of Daylight's reserves were evaluated and reported on by an independent qualified reserves evaluator; however, revisions can occur as a result of various factors including: actual reservoir performance, changes in price and cost forecasts or a change in Daylight's plans. Reserve changes will impact the financial results as reserves are used in the calculation of depletion and are used to assess whether asset impairment occurs. Reserve changes also affect other non-GAAP measurements such as finding and development costs, recycle ratios and net asset value calculations.

Depletion

Daylight follows the full cost method of accounting for oil and natural gas properties. Under this method, all costs related to the acquisition of, exploration for and development of oil and natural gas reserves are capitalized whether successful or not. Depletion of the capitalized oil and natural gas properties and depreciation of production equipment which includes estimated future development costs less estimated salvage values are calculated using the unit-of-production method based on production volumes in relation to estimated proved reserves.

An increase in estimated proved reserves would result in a reduction in depletion expense. A decrease in estimated future development costs would also result in a reduction in depletion expense.

Unproved Properties

The cost of acquisition and evaluation of unproved properties are initially excluded from the depletion calculation. These properties are assessed to ascertain whether impairment in value has occurred. When proved reserves are assigned or a property is considered to be impaired, the cost of the property or the amount of the impairment will be added to the capitalized costs for the calculation of depletion.

Ceiling Test

The ceiling test is a cost recovery test intended to identify and measure potential impairment of assets. An impairment loss is recorded if the sum of the undiscounted cash flows expected from the production of the proved reserves and the lower of cost and market of unproved properties does not exceed the carrying values of the petroleum and natural gas assets. An impairment loss is recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost and market of unproved properties. The cash flows are estimated using future product prices and costs and are discounted using the risk free rate. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material. Any impairment as a result of this ceiling test will be charged to operations as additional depletion and depreciation expense.

Asset Retirement Obligations

Daylight records a liability for the fair value of legal obligations associated with the retirement of petroleum and natural gas assets. The liability is equal to the discounted fair value of the obligation in the period in which the asset is recorded with an equal offset to the carrying amount of the asset. The liability then accretes to its fair value with the passage of time and the accretion is recognized as an expense in the financial statements. The total amount of the asset retirement obligation is an estimate based on Daylight's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the

wells and facilities and the estimated timing of the costs to be incurred in future periods. The total amount of the estimated cash flows required to settle the asset retirement obligation, the timing of those cash flows and the discount rate used to calculate the present value of those cash flows are all estimates subject to measurement uncertainty. Any change in these estimates would impact the asset retirement liability and the accretion expense.

Acquisitions

Acquisitions have been accounted for by the purchase method using fair values. The determination of fair value involves numerous estimates. The valuation of petroleum and natural gas assets is based on Daylight's estimate of proved plus probable reserves using estimated forecasted prices at the time of the transaction, plus an estimate of unproved properties. Management also estimates the fair value of other assets and liabilities in these transactions and the balances for tax pools. This valuation could differ materially by altering the various assumptions which would have impacted the composition of the balance sheet.

Income Taxes

The determination of income and other tax liabilities requires interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. The estimation of future tax liabilities includes uncertainty around the reversal of temporary differences. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

Financial Instruments

Derivative contracts are recorded at fair value based on an estimate of the amounts that would have been received or paid to settle these instruments prior to maturity given future market prices and other relevant factors. The actual amounts received or paid to settle these instruments at maturity could differ significantly from those estimated.

Other Estimates

The accrual method of accounting requires management to incorporate certain estimates including estimates of revenues, royalties and operating costs as at a specific reporting date but for which actual revenues and costs have not yet been received. In addition, estimates are made on capital projects which are in progress or recently completed where actual costs have not been received by the reporting date. Daylight obtains the estimates from the individuals with the most knowledge of the activity and from all project documentation received. The estimates are reviewed for reasonableness and compared to past performance to assess the reliability of the estimates. Past estimates are compared to actual results in order to make informed decisions on future estimates.

Changes in Accounting Polices

Financial Instruments - Disclosures

In May 2009, the CICA amended Section 3862, "Financial Instruments – Disclosures" to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. These amendments became effective for the Trust on December 31, 2009 and resulted in increased disclosure.

Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", replacing Section 3062 "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs". Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Standards concerning goodwill are unchanged form the standards

included in the previous Section 3062. The adoption of the section did not impact the Trust's financial results.

Future Accounting Changes

Business Combinations

In January 2009, the CICA issued Section 1582, Business Combinations. This section is effective January 1, 2011 and applies prospectively to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2011 for the Trust. Early adoption is permitted. This section replaces Section 1581, Business Combination and harmonizes the Canadian standards with IFRS.

Consolidated Financial Statements and Non-Controlling Interests

In January 2009, The AcSB issued Section 1601, Consolidated Financial Statements, and Section 1602, Non-Controlling Interests, which together replace Section 1600, Consolidated Financial Statements, and harmonize the Canadian standards with IFRS. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These sections are effective on or after the beginning of the first reporting period beginning on or after January 1, 2011. Early adoption is permitted.

International Financial Reporting Standards ("IFRS")

In October 2009, the Accounting Standards Board ("AcSB") issued a third and final IFRS Omnibus Exposure Draft confirming that publicly accountable enterprises will be required to apply IFRS, in full and without modification, for financial periods beginning on January 1, 2011. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by Daylight for the year ended December 31, 2010, including the opening balance sheet as at January 1, 2010.

Daylight has commenced the process to transition from current Canadian GAAP to IFRS. Internal staff has been appointed to lead the conversion project along with sponsorship from the leadership team. Resource requirements have been identified and all IFRS requirements will be met with internal employees supplemented with consultants as required. Daylight reports its progress on conversion regularly to the Audit Committee of the Board of Directors. Daylight has begun the process of training key personnel within the accounting and finance functions as well as the management team. This has occurred through external IFRS oil and gas training and workshops that have been attended by key members of the accounting and finance team in 2008 and 2009. This training will continue through 2010.

Daylight's project consists of three key phases:

- Scoping and diagnostic phase – this phase involves performing a high level impact analysis to identify areas that may be affected by the transition to IFRS. The results of this analysis are priority ranked according to complexity and the amount of time required to assess the impact of changes in transitioning to IFRS.

- Impact analysis and evaluation phase – during this phase, items identified in the diagnostic are addressed according to the priority levels assigned to them. This phase involves analysis of policy choices allowed under IFRS and their impact on the financial statements. In addition, certain potential differences are further investigated to assess whether there may be a broader impact to Daylight's debt agreements, compensation arrangements or management reporting systems. The conclusion of the impact analysis and evaluation phase will require the Audit Committee of the Board of Directors to review and approve all accounting policy choices as proposed by management.

- Implementation phase – involves implementation of all changes approved in the impact analysis phase and will include changes to information systems, business processes, modification of agreements and training of all staff who are impacted by the conversion.

Daylight has completed the scoping and diagnostic phase and has prepared draft analysis for the impact analysis and evaluation phase. Management has not yet finalized its accounting policies and as such is unable to quantify the impact of adopting IFRS on the financial statements. In addition, due to anticipated changes to IFRS and International Accounting Standards prior to adopting IFRS, management's plan is subject to change based on new facts and circumstances that arise after the date of this MD&A.

First-Time Adoption of IFRS

IFRS 1, "First-Time Adoption of International Financial Reporting Standards" ("IFRS 1"), provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions in certain areas to the general requirement for full retrospective application of IFRS. Management is analyzing the various accounting policy choices available and the methods to apply each choice. The Trust will implement those determined to be the most appropriate for Daylight which at this time are summarized as follows:

- Business Combinations – IFRS 1 would allow Daylight to use the IFRS rules for business combinations on a prospective basis rather than re-stating all business combinations. The IFRS business combination rules converge with the new CICA Handbook section 1582 that is also effective for Daylight on January 1, 2011; however, early adoption is permitted for the Canadian accounting standard.

- Property, Plant and Equipment ("PP&E") – IFRS 1 provides the option to value the PP&E assets at their deemed cost being the Canadian GAAP net book value assigned to these assets as at the date of transition, January 1, 2010. This amendment is permissible for entities, such as Daylight, who currently follow the full cost accounting guideline under Canadian GAAP that accumulates all oil and gas assets into one cost centre. Under IFRS, Daylight's PP&E assets must be divided into smaller cost centers. The net book value of the assets on the date of transition will be allocated to the new cost centers on the basis of Daylight's reserve volumes or values at that point in time.

- Decommissioning Liabilities included in the cost of PP&E – IFRS 1 provides an option to measure the decommissioning liability (ARO) associated with PP&E as at the date of transition to IFRS in accordance with IAS 37 with any impact recorded to retained earnings on adoption. This exemption provides relief to an entity from IFRIC 1 which requires retrospective measurement of the decommissioning liability and the related impact on the cost of the related asset and accumulated depreciation.

- Share-Based Payments – IFRS 1 allows for an exemption from IFRS 2, "Share-Based Payments" to equity instruments granted on or before November 2, 2002 or which vested before Daylight's transition date to IFRS.

The transition from Canadian GAAP to IFRS is a significant undertaking that may materially affect our reported financial position and results of operations. At this time, Daylight has identified key differences that could potentially impact the financial statements and is determining the method for calculating these differences when choices are available. The key differences identified are as follows:

- Re-classification of Exploration and Evaluation ("E&E") expenditures from PP&E – Upon transition to IFRS, Daylight will re-classify all E&E expenditures that are currently included in the PP&E balance on the consolidated balance sheet. This will include the book value for Daylight's undeveloped land that relates to exploration properties. E&E assets may not be depleted and must be assessed for impairment when indicators suggest the possibility of impairment.

- Calculation of depletion expense for PP&E assets – Upon transition to IFRS, Daylight has the option to calculate depletion using a reserve base of proved reserves or both proved and probable reserves, as compared to the Canadian GAAP method of calculating depletion using only proved reserves.

- Impairment of PP&E assets – Under IFRS, impairment of PP&E must be calculated at a more granular level than what is currently required under Canadian GAAP. Similar to E&E, PP&E assets will be assessed for impairment when indicators suggest the possibility of impairment.

Impairment calculations will be performed at the cash generating unit level using either total proved or proved plus probable reserves. There will be more cash generating units than the single Canadian full cost pool.

- Asset Retirement Obligation – As per IAS 37, the ARO or a decommissioning liability provision as referred to in IFRS is likely to increase as a result of the change from a credit adjusted risk free rate to a risk free rate (government bond) in the discounting of the cash flows. In addition any change in the discount rate would affect the entire liability and not just the current portion.

- Fair Value option on Debentures – IAS 39 permits entities to designate, at the time of acquisition of issuance, any financial asset or financial liability to be measured at fair value, with value changes recognized in the income statement if that asset or liability meets the criteria set out in IAS 39.

- Trust Unit classification – IAS 32 prescribes the principles surrounding debt versus equity classification regarding financial instruments. IAS 32 does not look to the legal form of instruments; instead it focuses on the instrument's contractual obligations.

- Stock-Based Compensation – As per IFRS 2, awards that vest in installments must be accounted for as though each installment is a separate award. This will result in front loading of compensation expense. In addition the expense is to be set up to reflect an estimate of the number of instruments expected to vest (estimate of forfeitures).

- Due to the recent withdrawal of the exposure draft on IAS 12 Income Taxes in November 2009 and the issuance of the exposure draft on IAS 37 Provisions, Contingent Liabilities and Contingent Assets in January 2010, Management is still determining the impact of these revised standards on its IFRS transition and expects to have all additional potential material impact areas identified during the first half of 2010.

In addition to accounting policy differences, Daylight's transition to IFRS will impact the internal controls over financial reporting, the disclosure controls and procedures, Daylight's business activities and IT systems as follows:

- Internal controls over financial reporting ("ICFR") – As the review of Daylight's accounting policies is completed, an assessment will be made to determine changes required for ICFR. As an example, additional controls will be implemented for the IFRS 1 changes such as the allocation of Daylight's PP&E as well as the process for re-classifying Daylight's E&E expenditures from PP&E. This will be an ongoing process through 2010 to ensure that all changes in accounting policies include the appropriate additional controls and procedures for future IFRS reporting requirements.

- Disclosure controls and procedures – Throughout the transition process, Daylight will be assessing stakeholders' information requirements and will ensure that adequate and timely information is provided so that all stakeholders are kept apprised. Management anticipates disclosure in investor presentations and in unitholder publications during 2011 to explain the differences between the historical Canadian GAAP statements and the IFRS statements.

- Business activities – Management will work with our counterparties and lenders to ensure that agreement references to Canadian GAAP statements are modified to allow for IFRS statements. Based on the expected changes to Daylight's accounting policies at this time, there are no foreseen issues with the existing wording of agreements as a result of the conversion to IFRS. During the 2010 borrowing base review held with Daylight's lenders there will be an update on IFRS as it relates to Daylight and management will continue to monitor these areas closely as final policy choices are made.

- IT systems – Daylight has completed most of the system updates required in order to ready the Trust for IFRS reporting. The modifications, while not significant, were deemed critical in order to allow for reporting of both Canadian GAAP and IFRS statements in 2010 as well as the

modifications required to track PP&E costs and E&E costs with a more granular level of detail for IFRS reporting. Additional system modifications may be required based on final policy choices.

Risk Factors

The following is a summary of certain risk factors relating to Daylight's business that prospective investors should carefully consider before deciding whether to purchase Trust units or Convertible Debentures.

Global Financial Crisis

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions worsened in 2008 and continued in 2009, causing a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. Although economic conditions improved towards the latter portion of 2009, these factors have negatively impacted company valuations and may impact the performance of the global economy going forward.

Risks to Daylight's Revenues

Volatility of Oil and Natural Gas Prices

The operational results and financial condition of Daylight's operating entities and therefore the amounts paid to Daylight and the monthly cash distributions paid to unitholders will be dependent on the prices received for oil and natural gas production. Oil and natural gas prices have fluctuated widely during recent years and are determined by economic and in the case of oil prices, political factors and a variety of additional factors beyond Daylight's control. These factors include economic conditions in the United States and Canada, the actions of the Organization of Petroleum Exporting Countries ("OPEC"), governmental regulation, political stability in the Middle East and elsewhere, the foreign supply of oil and natural gas, risks of supply disruption, the price of foreign imports and the availability of alternative fuel sources. Petroleum prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and the demand of these commodities due to the current state of the world economies, OPEC actions and the ongoing credit and liquidity concerns. Any substantial and extended decline in the price of oil and gas would have an adverse effect on Daylight's carrying value of proved and probable reserves, borrowing capacity, revenues, profitability and funds from operations. Any movement in oil and natural gas prices could have an effect on Daylight's financial condition and therefore on the amounts to be distributed to Daylight's unitholders.

Daylight may manage the risk associated with changes in commodity prices by entering into oil or natural gas price hedges. If Daylight hedges its commodity price exposure, it could forego the benefits it would otherwise experience if commodity prices were to increase. In addition, commodity hedging activities could expose Daylight to losses. To the extent that Daylight engages in risk management activities related to commodity prices, it will be subject to credit risks associated with counterparties contracted with.

Daylight's policy to mitigate credit risk associated with derivatives is generally to enter into derivative contracts only with large, established and reputable counterparties that are considered by Daylight to be creditworthy. Daylight has International Swaps and Derivatives Association ("ISDA") agreements or long form confirmations in place with all of Daylight's derivative contract counterparties. These agreements and confirmations provide some credit protection in that they generally allow parties to aggregate amounts owing to each other under all outstanding transactions and settle with a single net amount in the case of a credit event. Most of Daylight's derivative counterparties are members of Daylight's banking syndicate that provide access to bank debt under Daylight's revolving term credit facility.

Volatile oil and gas prices make it difficult to estimate the value of producing properties for acquisition and often cause disruption in the market for oil and gas producing properties, as buyers and sellers have

difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

Foreign Exchange Rates and Interest Rates

An increase in interest rates could result in a significant increase in the amount Daylight pays to service debt, which could result in a decrease in distributions to unitholders, as well as negatively impact the market price of the trust units.

World oil and natural gas prices are quoted in United States dollars and the price received by Canadian producers is therefore affected by the Canadian/U.S. dollar exchange rate that may fluctuate over time. In recent years, the Canadian dollar has increased materially in value against the United States dollar. Material increases in the value of the Canadian dollar may negatively impact Daylight's net production revenue. Future Canadian/U.S. exchange rates could accordingly impact the future value of reserves as determined by Daylight's independent evaluators.

To the extent that Daylight engages in risk management activities related to foreign exchange rates, it will be subject to credit risk associated with the contract counterparties.

Hedging

From time to time Daylight may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, Daylight will not benefit from such increases and Daylight may nevertheless be obligated to pay royalties on such higher prices, even though not received by it, after giving effect to such agreements. Similarly, from time to time Daylight may enter into agreements to fix the exchange rate of Canadian to United States dollars in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to the United States dollar; however, if the Canadian dollar declines in value compared to the United States dollar, Daylight will not benefit from the fluctuating exchange rate.

Substantial Capital Requirements

Daylight anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. If Daylight's revenues or reserves decline, it may not have access to the capital necessary to undertake or complete future drilling programs. In addition, uncertain levels of near term industry activity coupled with the present global credit crisis exposes Daylight to additional access to capital risk. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to Daylight. The inability of Daylight to access sufficient capital for its operations could have a material adverse effect on Daylight's business financial condition, results of operations and prospects.

Additional Funding Requirements

Daylight's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times. From time to time, Daylight may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause Daylight to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If Daylight's revenues from its reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect Daylight's ability to expend the necessary capital to replace its reserves or to maintain its production. If Daylight's cash flow from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or, if available, on terms acceptable to Daylight. Continued uncertainty in domestic and international credit markets could materially affect Daylight's ability to access sufficient capital for its capital expenditures and acquisitions, and as a result, may have a material adverse effect on Daylight's ability to execute its business strategy and on its business, financial condition, results of operations and prospects.

Market Risk Management Activities

From time to time Daylight may enter into agreements to receive fixed prices on Daylight's oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, Daylight will not benefit from such increases and Daylight may nevertheless be obligated to pay royalties on such higher prices, even though not received by us, after giving effect to such agreements. Similarly, from time to time Daylight may enter into agreements to fix the exchange rate of Canadian to United States dollars in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to the United States dollar; however, if the Canadian dollar declines in value compared to the United States dollar, Daylight will not benefit from the fluctuating exchange rate.

Prices, Markets and Marketing

The marketability and price of oil and natural gas that may be acquired or discovered by Daylight is and will continue to be affected by numerous factors beyond its control. Daylight's ability to market its oil and natural gas may depend upon its ability to acquire space on pipelines that deliver natural gas to commercial markets. Daylight may also be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing and storage facilities and operational problems affecting such pipelines and facilities as well as extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business.

The prices of oil and natural gas prices may be volatile and subject to fluctuation. Any material decline in prices could result in a reduction of Daylight's net production revenue. The economics of producing from some wells may change as a result of lower prices, which could result in reduced production of oil or gas and a reduction in the volumes of Daylight's reserves. Daylight might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in Daylight's expected net production revenue and a reduction in its oil and gas acquisition, development and exploration activities. Prices for oil and gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and gas, market uncertainty and a variety of additional factors beyond the control of Daylight. These factors include economic conditions, in the United States and Canada, the actions of OPEC, governmental regulation, political stability in the Middle East and elsewhere, the foreign supply of oil and gas, risks of supply disruption, the price of foreign imports and the availability of alternative fuel sources. Any substantial and extended decline in the price of oil and gas would have an adverse effect on Daylight's carrying value of its reserves, borrowing capacity, revenues, profitability and cash flows from operations and may have a material adverse effect on Daylight's business, financial condition, results of operations and prospects.

Petroleum prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and the demand of these commodities due to the current state of the world economies, OPEC actions and the ongoing credit and liquidity concerns. Volatile oil and gas prices make it difficult to estimate the value of producing properties for acquisition and often cause disruption in the market for oil and gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

In addition, bank borrowings available to Daylight may, in part, be determined by Daylight's borrowing base. A sustained material decline in prices from historical average prices could reduce Daylight's borrowing base, therefore reducing the bank credit available to Daylight which could require that a portion, or all, of Daylight's bank debt be repaid.

Geo-Political Risks

The marketability and price of oil and natural gas that may be acquired or discovered by Daylight is and will continue to be affected by political events throughout the world that cause disruptions in the supply of oil. Conflicts, or conversely peaceful developments, arising in the Middle East, and other areas of the world, have a significant impact on the price of oil and natural gas. Any particular event could result in a material decline in prices and therefore result in a reduction of Daylight's net production revenue.

In addition, Daylight's oil and natural gas properties, wells and facilities could be subject to a terrorist

attack. If any of Daylight's properties, wells or facilities are the subject of terrorist attack it may have a material adverse effect on Daylight's business, financial condition, results of operations and prospects. Daylight will not have insurance to protect against the risk from terrorism.

Third Party Credit Risk

Daylight may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production and other parties. In the event such entities fail to meet their contractual obligations to Daylight, such failures may have a material adverse effect on Daylight's business, financial condition, results of operations and prospects. In addition, poor credit conditions in the industry and of joint venture partners may impact a joint venture partner's willingness to participate in Daylight's ongoing capital program, potentially delaying the program and the results of such program until Daylight finds a suitable alternative partner.

Daylight's policy to mitigate credit risk associated with product sales is to generally maintain marketing relationships with large, established and reputable purchasers that are considered by Daylight to be creditworthy. Daylight does not typically obtain collateral from petroleum and natural gas marketers. Joint venture receivables are typically collected within one to three months of the joint venture bill being issued to the partner. Daylight attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to expenditure and in certain circumstances may require cash deposits in advance of incurring financial obligations on behalf of joint venture partners; however, the receivables are from participants in the petroleum and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as changes in commodity prices, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint venture partners as disagreements occasionally arise that increase the potential for non-collection. In most cases Daylight has the ability to withhold production from joint venture partners in the event of non-payment or may be able to register security on the assets of joint venture partners.

Delay in Cash Receipts

In addition to the usual delays in payment by purchasers of oil and natural gas to the operators of the properties, and by the operator to Daylight's operating entities, payments between any of such parties may also be delayed by restrictions imposed by lenders, delays in the sale or delivery of products, delays in the connection of wells to a gathering system, blowouts or other accidents, recovery by the operator of expenses incurred in the operation of properties or the establishment by the operator of reserves for such expenses. Any of these delays could adversely affect distributions to unitholders.

Operational Risks

Exploration, Development and Production Risks

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of Daylight depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves Daylight may have at any particular time, and the production therefrom will decline over time as such existing reserves are exploited. A future increase in Daylight's reserves will depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. No assurance can be given that Daylight will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, management of Daylight may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that further commercial quantities of oil and natural gas will be discovered or acquired by Daylight.

Future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but also from wells that are productive but do not produce sufficient petroleum substances to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well

supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, sour gas releases and spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or personal injury. In particular, Daylight may explore for and produce sour natural gas in certain areas. An unintentional leak of sour natural gas could result in personal injury, loss of life or damage to property and may necessitate an evacuation of populated areas, all of which could result in liability to Daylight. In accordance with industry practice, Daylight is not fully insured against all of these risks, nor are all such risks insurable. Although Daylight maintains liability insurance in an amount that it considers consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event Daylight could incur significant costs. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks may have a material adverse effect on Daylight's business, financial condition, results of operations and prospects.

Operating Costs and Production Declines

Daylight currently operates approximately 75% of its total daily production. Operating costs for its underlying properties will directly decrease the amount of funds from operations received by Daylight and, therefore, may reduce distributions to its unitholders. Labour costs, electricity, gas processing, well servicing and chemicals are a few of the operating costs that are susceptible to material fluctuation.

The level of production from Daylight's existing properties may decline at rates greater than anticipated due to unforeseen circumstances, many of which are beyond Daylight's control. A significant decline in production could result in materially lower revenues and funds from operations and, therefore, could reduce the amount available for distributions to unitholders.

Operational Dependence

Other companies operate some of the assets in which Daylight has an interest. As a result, Daylight has limited ability to exercise influence over the operation of those assets or their associated costs, which could adversely affect Daylight's financial performance. Daylight's return on assets operated by others therefore depends upon a number of factors that may be outside of Daylight's control, including the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and risk management practices.

Project Risks

Daylight manages a variety of small and large projects in the conduct of its business. Project delays may delay expected revenues from operations. Significant project cost over-runs could make a project uneconomic. Daylight's ability to execute projects and market oil and natural gas depends upon numerous factors beyond Daylight's control, including:

- the availability of processing capacity;
- the availability and proximity of pipeline capacity;
- the availability of storage capacity;
- the supply of and demand for oil and natural gas;
- the availability of alternative fuel sources;
- the effects of inclement weather;
- the availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;
- currency fluctuations;
- changes in regulations;
- the availability and productivity of skilled labour; and
- the regulation of the oil and natural gas industry by various levels of government and

governmental agencies.

Because of these factors, Daylight could be unable to execute projects on time, on budget or at all, and may not be able to effectively market the oil and natural gas that it produces.

Availability of Drilling Equipment and Access

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment (typically leased from third parties) in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to Daylight and may delay exploration and development activities. To the extent Daylight is not the operator of Daylight's oil and gas properties, Daylight will be dependent on such operators for the timing of activities related to such properties and will be largely unable to direct or control the activities of the operators.

Seasonality

The level of activity in the Canadian oil and gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Also, certain oil and gas producing areas are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. Seasonal factors and unexpected weather patterns may lead to declines in exploration and production activity and corresponding declines in the demand for the goods and services of Daylight.

Reserve Estimates

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and NGLs reserves and the future cash flows attributed to such reserves. The reserve and associated cash flow information set forth herein are estimates only. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of oil and natural gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary materially from actual results. For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues associated with reserves prepared by different engineers, or by the same engineers at different times, may vary. Daylight's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material.

Estimates of proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Recovery factors and drainage areas were estimated by experience and analogy to similar producing pools. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves and such variations could be material.

In accordance with applicable securities laws, Daylight's independent reserves evaluator has used forecast prices and costs in estimating the reserves and future net cash flows as summarized herein. Actual future net cash flows will be affected by other factors such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs.

Actual production and cash flows derived from Daylight's oil and gas reserves will vary from the estimates contained in the engineering report, and such variations could be material. The engineering report is based in part on the assumed success of activities Daylight intends to undertake in future years. The reserves and estimated cash flows to be derived therefrom contained in the engineering report will be reduced to the extent that such activities do not achieve the level of success assumed.

Further, the reserves and recovery information contained in the engineering report is only an estimate and the actual production and ultimate reserves from the properties may be greater or less than the estimates in the engineering report. The engineering report has been prepared using certain commodity price assumptions which are described in the notes to the reserves tables. If Daylight realizes lower prices for crude oil, natural gas liquids and natural gas and they are substituted for the price assumptions utilized in the engineering report, the present value of estimated future funds from operations for Daylight's reserves would be reduced and the reduction could be significant.

Depletion of Reserves

Distributions of distributable income in respect of properties, absent commodity price increases or cost effective acquisition and development activities, will decline over time in a manner consistent with declining production from typical oil, natural gas and NGLs reserves. Daylight will not be reinvesting funds from operations to the same extent as other industry participants as one of Daylight's main objectives is to maintain long-term distributions. Accordingly, absent capital injections, Daylight's initial production levels and reserves will decline and the level of distributable income will be reduced.

Daylight's future oil and natural gas reserves and production, and therefore Daylight's funds from operations, will be highly dependent on Daylight's success in exploiting its reserve base and acquiring additional reserves. Without reserves additions through acquisition or development activities, reserves and production will decline over time as reserves are produced.

To the extent that external sources of capital, including the issuance of additional trust units become limited or unavailable, Daylight's ability to make the necessary capital investments to maintain or expand Daylight's oil and natural gas reserves will be impaired. To the extent that Daylight is required the use funds from operations to finance capital expenditures or property acquisitions, the level of distributable income will be reduced.

There can be no assurance that Daylight will be successful in developing or acquiring additional reserves on terms that meet its investment objectives.

Insurance

Daylight's involvement in the exploration for and development of oil and natural gas properties may result in Daylight becoming subject to liability for pollution, blowouts, leaks of sour natural gas, property damage, personal injury or other hazards. Although Daylight maintains insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks are not, in all circumstances, insurable or, in certain circumstances, Daylight may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to Daylight. The occurrence of a significant event that was not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on Daylight's business, financial condition, results of operations and prospects.

Competition

The petroleum industry is competitive in all its phases. Daylight competes with numerous other organizations in the search for, and the acquisition of, oil and natural gas properties and in the marketing of oil and natural gas. Daylight's competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than those of Daylight. Daylight's ability to increase its reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire other suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price and methods and reliability of delivery and storage. Competition may also be presented by alternate fuel sources.

Daylight competes with other oil and gas entities to hire and retain skilled personnel necessary for running Daylight's operations including the execution of Daylight's annual capital development program. The inability to hire and retain skilled personnel could adversely impact certain of Daylight's operational and financial results.

Risks Associated with Government Regulation

Environmental Concerns

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require Daylight to incur costs to remedy such discharge. Although Daylight believes that it will be in material compliance with current applicable environmental regulations, no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise have a material adverse affect on Daylight's business, financial condition, results of operations and prospects.

Climate Change

Canada is a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established thereunder to set legally binding targets to reduce nationwide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases". There has been much public debate with respect to Canada's ability to meet these targets and the Government's strategy or alternative strategies with respect to climate change and the control of greenhouse gases. Recently, representatives from approximately 170 countries met in Copenhagen, Denmark to attempt to negotiate a successor to the Kyoto Protocol. The result of such meeting was the Copenhagen Accord, a non-binding political consensus rather than a binding international treaty such as the Kyoto Protocol. Daylight's exploration and production facilities and other operations and activities emit greenhouse gases and require Daylight to comply with Alberta's greenhouse gas emissions legislation contained in the Climate Change and Emissions Management Act and the Specified Gas Emitters Regulation. Daylight will also be required comply with the regulatory scheme for greenhouse gas emissions ultimately adopted by the federal government, which are now expected to be consistent with the regulatory scheme for greenhouse gas emissions adopted by the United States. The direct or indirect costs of these regulations may have a material adverse effect on Daylight's business, financial condition, results of operations and prospects. The future implementation or modification of greenhouse gases regulations, whether to meet the limits required by the Kyoto Protocol, the Copenhagen Accord or as otherwise determined, could have a material impact on the nature of oil and natural gas operations, including those of Daylight. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict the impact on Daylight and its operations and financial condition.

Regulatory

Oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government, which may be amended from time to time. Governments may regulate or intervene with respect to price, taxes, royalties and the exportation of oil and natural gas. Such regulations may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for natural gas and crude oil and increase Daylight's costs, any of which may have a material adverse effect on Daylight's business, financial condition, results of operations and prospects. In order to conduct oil and gas operations, Daylight will require licenses from various governmental authorities. There can be no assurance that Daylight will be able to obtain all of the licenses and permits that may be required to conduct operations that it may wish to undertake.

Changes in Legislation

Income tax laws, or other laws or government incentive programs relating to the oil and gas industry, such as the treatment of mutual fund trusts and resource taxation, may in the future be changed or interpreted in a manner that adversely affects Daylight and the unitholders. Tax authorities having jurisdiction over Daylight or unitholders may disagree with how Daylight calculates its income for tax purposes or could change administrative practices to the detriment of Daylight or its unitholders.

Daylight intends to continue to qualify as a mutual fund trust for purposes of the Income Tax Act (Canada); however, Daylight may not always be able to satisfy any future requirements for the maintenance of mutual fund trust status. Should Daylight's status as a mutual fund trust be lost or successfully challenged by a relevant tax authority, certain adverse consequences may arise for Daylight and its unitholders.

Some of the significant consequences of losing mutual fund trust status are as follows:

- Daylight would be taxed on certain types of income distributed to unitholders, including income generated by the royalties held. Payment of this tax may have adverse consequences for some unitholders, particularly unitholders that are not residents of Canada and residents of Canada that are otherwise exempt from Canadian income tax.
- Daylight would cease to be eligible for the capital gains refund mechanism available under Canadian tax laws if it ceased to be a mutual fund trust.
- Trust units held by unitholders that are not residents of Canada would become taxable Canadian property. These non-resident holders would be subject to Canadian income tax on any gains realized on a disposition of trust units held by them.
- Trust units would not constitute qualified investments for registered retirement savings plans ("RRSPs"), registered retirement income funds ("RRIFs"), registered education savings plans ("RESPs") or deferred profit sharing plans ("DPSPs"). If, at the end of any month, one of these exempt plans holds Trust Units that are not qualified investments, the plan must pay a tax equal to 1% of the fair market value of the trust units at the time the trust units were acquired by the exempt plan. An RRSP or RRIF holding non-qualified trust units would be subject to taxation on income attributable to the trust units. If an RESP holds non-qualified trust units, it may have its registration revoked by the Canada Revenue Agency.
- Trust units would not constitute qualified investments for a tax-free savings account ("TFSA")

Daylight may take certain measures in the future to the extent considered necessary to ensure that status as a mutual fund trust is maintained. These measures could be adverse to certain holders of trust units, particularly "non-residents" of Canada as defined in the Income Tax Act (Canada).

Taxation of Daylight Energy

Daylight Energy is subject to taxation in each taxation year on its income for the year, after deducting certain payments made to Daylight to the extent that there are not sufficient resource pool deductions, capital cost allowance or utilization of prior year non-capital losses to reduce taxable income to zero. Daylight Energy intends to deduct, in computing its income for tax purposes, the full amount available for deduction in each year associated with the income tax resource pools, undepreciated capital cost ("UCC") and non-capital losses carried forward, if any, plus resource pools and UCC created by capital expenditures of Daylight Energy. If there are not sufficient resource pools, UCC and non-capital losses carried forward to shelter the income of Daylight Energy, then cash taxes would be payable by Daylight Energy. In addition, there can be no assurance that taxation authorities will not seek to challenge certain amounts. If such a challenge were to succeed against Daylight Energy, it could have a material adverse effect on the amount of distributable cash available.

The Trust Indenture provides that an amount equal to the taxable income of Daylight will be distributed each year to unitholders in order to reduce Daylight's taxable income to zero.

On October 31, 2006, the Federal Minister of Finance announced proposals (the "October 31, 2006 Proposals") to amend the *Tax Act* to apply a tax on distributions from publicly-traded income trusts. Under the October 31, 2006 Proposals, existing income trusts will be subject to the new measures commencing in their 2011 taxation year, following a four-year grace period. This legislation was enacted in June 2007.

In simplified terms, under the tax plan, distributions to unitholders that had previously been provided without taxes or withholdings will become subject to a new tax at the income trust level. The income

distributions to Canadian taxable individual unitholders will be treated as dividends from a Canadian corporation and be eligible for the dividend tax credit. Income distributions to corporations resident in Canada will be eligible for full deduction as tax free intercorporate dividends. Tax-deferred accounts (Registered Retirement Savings Plans, Registered Retirement Income Funds, Canadian Pension Funds and Tax Free Savings Accounts) will continue to pay no tax on distributions received. Non-resident unitholders will be taxed on distributions at the non-resident withholding tax rate for dividends. The net impact on Canadian taxable investors is expected to be minimal because they may take advantage of the dividend tax credit. Distributions to tax-deferred accounts and to non-residents will be negatively affected since these distributions will be subject to the distribution tax at the trust level but the recipients will not be eligible for the dividend tax credit which is available to Canadian taxable investors.

On January 5, 2010, the Trust closed its Convertible Debenture Series D financing. This closing may accelerate the Trust becoming subject to the SIFT Tax. If the Trust becomes subject to the SIFT Tax, distributions to unitholders will no longer be deductible by the Trust for tax purposes. In the event that the Trust becomes subject to the SIFT tax in 2010, the Trust has sufficient tax pools available to reduce cash taxes payable in the period to nil.

Management is of the opinion that the conversion from a trust to a corporation is the most logical and tax efficient alternative for Daylight unitholders. Management is in the process of detailing the steps required to convert to a corporation and is working with tax advisors to further define the process.

A conversion to a corporation will require the approval of Daylight's unitholders, as well as customary court and regulatory approvals. The closing of a conversion requires a unitholder meeting and must be approved by not less than two-thirds of the votes cast by unitholders voting at the meeting. Daylight currently anticipates that the closing of a conversion would occur following its Annual and Special Meeting in May 2010. The intention would be for a conversion to be a non-taxable exchange for both Canadian and U.S. income tax purposes.

Under Canadian GAAP, management anticipates that the conversion would be accounted for on a continuity of interests basis. Under the continuity of interests method of accounting, the corporation would be recognized as the successor entity to the Trust and the Consolidated Financial Statements would reflect the financial position, results of operations and cash flows as if the corporation had always carried on the business formerly carried on by the Trust. Terms such as shareholder, unitholder, dividend and distribution would be used interchangeably throughout the Consolidated Financial Statements and MD&A.

As a corporation, Daylight expects to continue to allocate its funds from operations to capital expenditures, periodic debt repayments, asset retirement obligations and dividends. Taxable income as a corporation will vary depending on total income and expenses which will vary with commodity prices, costs, claims for both accumulated tax pools and tax pools associated with current year expenditures. Current taxes payable will be subject to normal corporate tax rates. Because Daylight has accumulated over $1.4 billion of tax pools at December 31, 2009, taxable income is expected to be nil for several years following conversion. Tax pools are deductible at various rates and annual deductions associated with the initial tax pools are expected to decline over time.

Returns to shareholders are not expected to be impacted by Daylight's requirement to pay current taxes, if any, for several years following conversion. If a conversion from the trust structure to a corporation is approved by unitholders, the income tax payable by unitholders will vary and each unitholder should consult their own tax advisor for details on the direct impact of the change.

Debt Service

Daylight Energy may, from time to time, finance a significant portion of its operations through debt. Amounts paid in respect of interest and principal on debt incurred by Daylight Energy may impair Daylight Energy's ability to satisfy its obligations to Daylight. Variations in interest rates and scheduled principal repayments could result in significant changes in the amount required to be applied to debt service before payment by Daylight Energy of its obligation to Daylight. Ultimately, this may result in lower levels of distributable cash.

Pursuant to its credit facilities, Daylight Energy is restricted from making distributions to Daylight, including payments of principal and interest in the following circumstances: (i) after a demand has been made under the facility; (ii) after a default or event of default has occurred under the facility or if the borrowings

thereunder exceed the borrowing base established from time to time by the lender; and (iii) if such distribution would result in a default or event of default under the facility. This may restrict the ability of Daylight Energy to pay Daylight, and therefore may limit or eliminate cash available for distribution.

Lenders have security over all of the assets of Daylight Energy. If Daylight Energy becomes unable to pay its debt service charges or otherwise commits an event of default such as bankruptcy, a lender may foreclose on or sell the assets of Daylight Energy.

Delay in Cash Distributions

In addition to the usual delays in payment by purchasers of oil and natural gas to the operators of the properties, and by the operator to Daylight Energy, payments between any of such parties may also be delayed by restrictions imposed by lenders, delays in the sale or delivery of products, delays in the connection of wells to a gathering system, blowouts or other accidents, recovery by the operator of expenses incurred in the operation of the properties or the establishment by the operator of reserves for such expenses.

Reliance on Management

Unitholders will be dependent on the management of Daylight Energy in respect of the administration and management of all matters relating to its operations. Daylight Energy, as of December 31, 2009, operated approximately 75% of total daily production. Investors who are not willing to rely on the management of Daylight Energy should not invest in the trust units and/or convertible debentures.

Return of Capital

Trust units will have no value when Daylight's oil and gas properties can no longer be economically produced and, as a result, cash distributions do not represent a "yield" in the traditional sense and are not comparable to bonds or other fixed yield securities, where investors are entitled to a full return of the principal amount of debt on maturity in addition to a return on investment through interest payments. Distributions represent a combination of return of unitholders initial investment and a return on unitholders initial investment.

Unitholders have a limited right to require Daylight to repurchase their trust units, which is referred to as a redemption right. It is anticipated that the redemption right will not be the primary mechanism for unitholders to liquidate their investment. The right to receive cash in connection with a redemption is subject to limitations.

Nature of Trust Units

Trust units do not represent a traditional investment in the oil and natural gas sector and should not be viewed as shares in Daylight Energy. Trust units represent a fractional interest in the Trust. As holders of trust units, unitholders do not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. Daylight's sole assets are investments in Daylight Energy. The price per trust unit is a function of anticipated distributable cash, underlying assets and management's ability to effect long-term growth in value. The market price of the trust units will be sensitive to a variety of market conditions including, but not limited to, interest rates and Daylight's ability to acquire suitable oil and natural gas properties. Changes in market conditions may adversely affect the trading price of the trust units.

The trust units are not "deposits" within the meaning of the Canada Deposit Insurance Corporation Act (Canada) and are not insured under the provisions of that Act or any other legislation. Furthermore, Daylight is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on nor intend to carry on the business of a trust company.

Unitholder Limited Liability

The Trust Indenture provides that no unitholder will be subject to any liability in connection with Daylight or its obligations and affairs and, in the event that a court determines unitholders are subject to any such liabilities, the liabilities will be enforceable only against, and will be satisfied only out of Daylight assets. Pursuant to the Trust Indenture, Daylight will indemnify and hold harmless each unitholder from any costs, damages, liabilities, expenses, charges and losses suffered by a unitholder resulting from or arising out of such unitholder not having such limited liability.

The Trust Indenture provides that all written instruments signed by or on behalf of Daylight must contain a provision to the effect that such obligation will not be binding upon unitholders personally. Personal liability may also arise in respect of claims against Daylight that do not arise under contracts, including claims in tort, claims for taxes and possibly certain other statutory liabilities. The possibility of any personal liability of this nature arising is considered unlikely.

Daylight's operations will be conducted, upon the advice of counsel, in such a way and in such jurisdictions as to avoid as far as possible any material risk of liability on the unitholders for claims.

In addition, the Income Trust Liability Act (Alberta) was proclaimed in force in Alberta on June 30, 2004. The Income Trust Liability Act (Alberta) provides that the beneficiary of a trust that is (a) created by a trust instrument governed by the laws of Alberta, and (b) a reporting issuer as defined in the Securities Act (Alberta), is not liable as a beneficiary for any act, default, obligation or liability of the trustee.

Stability Rating

Daylight does not have a stability rating and has no current plans to apply for a stability rating.

Maintenance of Distributions

Daylight adds to its oil and natural gas reserves primarily through development and acquisitions with only a small percentage of the capital directed to exploration. As a result, future oil and natural gas reserves are highly dependent on Daylight's operating entities' success in exploiting existing properties and acquiring additional reserves. Daylight also distributes a portion of its funds from operations to unitholders rather than reinvesting it in reserve additions. Accordingly, if external sources of capital, including the issuance of additional trust units, become limited or unavailable on commercially reasonable terms, Daylight's operating entities' ability to make the necessary capital investments to maintain or expand oil and natural gas reserves will be impaired. To the extent that Daylight's operating entities are required to use funds from operations to finance capital expenditures or property acquisitions, the level of cash available for distribution to unitholders will be reduced. Additionally, Daylight cannot guarantee that it will be successful in developing additional reserves or acquiring additional reserves on terms that meet its investment objectives. Without these reserve additions, Daylight's reserves will deplete and as a consequence, either production from, or the average reserve life of, Daylight properties will decline. Either decline may result in a reduction in the value of trust units and in a reduction in cash available for distributions to unitholders.

Quarterly Information

Financial *(in thousands of dollars, except unit, per unit and boe data)*	**2009**				2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Petroleum and natural gas revenues	**$ 156,695**	$ 66,100	$ 66,649	$ 71,893	$ 91,311	$ 145,269	$151,171	$ 113,986
Royalties	**(42,179)**	(10,527)	(11,238)	(14,111)	(18,814)	(28,149)	(29,568)	(21,733)
Realized gain (loss) on derivative contracts	**17,421**	32,282	30,048	25,285	12,230	(9,237)	(9,507)	-
Operating expenses	**(40,526)**	(25,179)	(24,875)	(24,441)	(24,038)	(23,943)	(22,587)	(21,769)
Transportation expenses	**(3,112)**	(2,424)	(2,201)	(2,310)	(2,423)	(2,132)	(1,926)	(1,721)
Operating netback	**88,299**	60,252	58,383	56,316	58,266	81,808	87,583	68,763
G&A – cash charge	**(11,023)**	(4,934)	(5,117)	(6,885)	(4,483)	(4,542)	(4,175)	(3,679)
Cash financial charges	**(5,114)**	(5,073)	(4,807)	(4,536)	(3,708)	(4,626)	(6,376)	(6,417)
Provision for non-recoverable accounts receivable	**-**	-	-	-	-	(1,800)	-	-
Other income [1]	**-**	-	-	-	-	7,806	-	-
Funds from operations	**72,162**	50,245	48,459	44,895	50,075	78,646	77,032	58,667
Per unit – Basic	**0.42**	0.41	0.45	0.50	0.56	0.91	0.95	0.75
– Diluted	**0.40**	0.39	0.42	0.45	0.52	0.84	0.85	0.66
Cash provided by operating activities	**48,756**	44,054	49,198	47,429	47,416	97,799	71,028	43,516
Net income (loss)	**(7,858)**	(7,244)	(14,543)	6,071	44,424	69,692	42,462	3,941
Per unit – Basic	**(0.05)**	(0.06)	(0.14)	0.07	0.50	0.81	0.53	0.05
– Diluted	**(0.05)**	(0.06)	(0.14)	0.07	0.48	0.76	0.48	0.05
Cash distributions declared	**41,811**	29,385	26,254	21,657	35,193	33,684	24,807	23,333
Per unit	**0.24**	0.24	0.24	0.24	0.39	0.39	0.30	0.30
Payout ratio	**58%**	58%	54%	48%	70%	43%	32%	40%
Capital expenditures	**76,928**	10,613	15,803	59,413	38,766	45,657	37,866	43,630
Cash property acquisitions	**-**	-	-	-	66,571	-	-	-
Cash property divestitures	**-**	-	-	-	-	(87,695)	-	-
Non-cash property acquisitions	**-**	-	-	-	26,887	-	-	-
Corporate acquisitions	**534,278**	-	123,827	-	-	36,433	-	-
Market value of investments	**11,302**	4,143	2,599	2,013	2,285	9,987	18,554	15,172
Bank debt	**260,172**	164,172	160,983	238,359	219,853	199,282	274,313	268,410
Working capital deficiency[2]	**101,482**	31,298	40,986	60,981	42,275	37,200	9,740	29,908
Convertible debentures	**117,897**	117,217	116,525	115,836	115,201	54,180	62,762	120,170
Total assets	**1,727,814**	1,097,686	1,153,128	1,077,667	1,058,195	915,364	970,810	949,143
Units outstanding (000s)								
Basic	**174,216**	122,437	122,434	90,239	90,239	86,299	85,481	77,914
Diluted	**189,831**	138,499	138,457	106,517	106,050	94,295	94,553	94,096
Operations								
Average daily production								
Natural gas (mcf/d)	**136,412**	100,250	96,173	91,668	82,572	81,798	75,041	67,691
Light oil (bbls/d)	**9,926**	3,421	3,596	3,935	4,086	4,864	4,899	5,174
Heavy oil (bbls/d)	**2,026**	2,096	2,141	2,117	2,798	2,179	2,257	2,181
NGLs (bbls/d)	**3,510**	1,277	1,281	1,480	1,217	1,106	1,054	1,167
Oil & NGLs (bbls/d)	**15,462**	6,794	7,018	7,532	8,101	8,149	8,210	8,522
Combined (boe/d)	**38,197**	23,502	23,047	22,810	21,863	21,782	20,717	19,804
Average prices received								
Natural gas ($/mcf)	**$ 4.76**	$ 3.05	$ 3.53	$ 5.24	$ 7.11	$ 8.54	$ 10.16	$ 7.92
Light oil ($/bbl)	**74.11**	67.58	60.54	46.17	55.28	116.11	120.93	91.40
Heavy oil ($/bbl)	**63.10**	59.39	56.16	37.57	45.20	99.43	96.07	71.54
NGLs ($/bbl)	**54.19**	45.08	42.75	38.81	43.27	89.43	84.76	74.91
Oil & NGLs ($/bbl)	**68.14**	$ 60.82	$ 55.96	$ 42.31	$ 50.00	$ 108.03	$ 109.46	$ 84.06
Combined ($/boe)	**$ 44.59**	$ 30.58	$ 31.78	$ 35.02	$ 45.40	$ 72.50	$ 80.19	$ 63.25
Wells drilled - gross (net)	**20 (9.1)**	17 (10.4)	2 (0.1)	20 (6.1)	10 (3.2)	15 (7.0)	3 (2.2)	22 (8.9)

(1) Termination fee of $9.0 million relates to termination of arrangement with Cadence Energy Inc., less transaction costs of $1.2 million.

(2) Excludes unrealized gain (loss) on derivative contracts and future income taxes.

Quarterly Information

Financial *(in thousands of dollars, except unit, per unit and boe data)*	2007				2006			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Petroleum and natural gas revenues	$ 99,718	$ 82,557	$ 92,699	$ 91,982	$ 92,715	$ 69,877	$ 68,554	$ 66,187
Royalties	(18,853)	(14,454)	(18,223)	(16,237)	(17,444)	(13,312)	(14,040)	(12,485)
Realized gain (loss) on derivative contracts	2,145	5,118	(320)	24	91	(133)	-	-
Operating expenses	(23,072)	(21,555)	(27,268)	(21,971)	(21,319)	(15,901)	(15,286)	(14,848)
Transportation expenses	(2,019)	(1,920)	(2,085)	(1,833)	(1,871)	(1,959)	(1,354)	(1,309)
Operating netback	57,919	49,746	44,803	51,965	52,172	38,572	37,874	37,545
G&A – cash charge	(3,724)	(3,552)	(4,117)	(3,840)	(4,326)	(3,634)	(2,625)	(2,596)
Cash financial charges	(6,716)	(5,851)	(5,412)	(5,292)	(4,519)	(2,695)	(2,286)	(1,699)
Cash taxes	-	-	-	-	(54)	(1)	222	(225)
Funds from operations	47,479	40,343	35,274	42,833	43,273	32,242	33,185	33,025
Per unit – Basic	0.61	0.52	0.46	0.57	0.59	0.71	0.79	0.80
– Diluted	0.54	0.52	0.46	0.57	0.59	0.68	0.77	0.77
Cash provided by operating activities	44,824	38,850	37,211	46,500	21,314	31,783	42,119	17,889
Net income (loss)	(127,381)	7,131	18,682	5,301	(283,511)	(2,140)	15,735	12,093
Per unit – Basic	(1.64)	0.09	0.24	0.07	(3.88)	(0.05)	0.38	0.29
– Diluted	(1.64)	0.09	0.24	0.07	(3.88)	(0.05)	0.38	0.29
Cash distributions declared	23,296	27,006	34,475	34,114	43,008	31,844	26,663	26,407
Per unit	0.30	0.35	0.45	0.45	0.59	0.62	0.63	0.63
Payout ratio	49%	67%	98%	80%	99%	n/a[1]	80%	80%
Capital expenditures	29,089	33,727	12,887	20,677	17,032	19,358	21,034	35,378
Cash property acquisition	-	-	-	-	32,729	-	-	-
Non-cash property divestitures	-	-	-	-	-	(21,100)	(6,628)	-
Corporate acquisitions	-	-	-	-	-	527,691	-	-
Market value of investments	13,068	13,336	17,988	16,673	22,860	20,500	5,783	-
Bank debt	257,342	363,153	358,832	338,511	349,336	287,392	165,114	162,190
Working capital deficiency[2]	32,088	40,097	25,499	29,649	22,624	50,318	28,931	17,048
Convertible debentures	119,792	3,467	3,456	3,444	3,515	3,510	3,973	6,996
Total assets	922,344	1,065,025	1,072,055	1,083,695	1,114,085	1,424,236	833,821	845,746
Units outstanding (000s)								
Basic	77,657	77,475	76,652	76,542	74,322	71,863	42,209	41,861
Diluted	93,850	78,983	78,133	77,597	75,309	72,117	44,349	44,110
Operations								
Average daily production								
Natural gas (mcf/d)	71,187	69,143	74,356	78,556	80,991	57,926	59,452	56,012
Light oil (bbls/d)	4,964	4,565	4,258	4,310	4,455	3,172	2,855	2,575
Heavy oil (bbls/d)	2,488	2,382	2,416	2,504	2,796	2,760	2,579	2,701
NGLs (bbls/d)	1,266	1,129	1,258	1,449	1,449	756	740	677
Oil & NGLs (bbls/d)	8,718	8,076	7,932	8,263	8,700	6,688	6,174	5,953
Combined (boe/d)	20,583	19,600	20,325	21,356	22,199	16,342	16,083	15,288
Average prices received								
Natural gas ($/mcf)	$ 6.49	$ 5.33	$ 7.46	$ 7.29	$ 6.89	$ 5.72	$ 6.18	$ 7.73
Light oil ($/bbl)	81.84	73.87	67.09	61.34	60.07	74.23	71.78	65.55
Heavy oil ($/bbl)	53.50	51.97	46.05	42.50	39.59	51.27	52.01	34.29
NGLs ($/bbl)	64.99	59.90	53.42	54.31	49.53	67.79	63.05	60.50
Oil & NGLs ($/bbl)	$ 71.31	$ 65.46	$ 58.51	$ 54.40	$ 51.73	$ 64.03	$ 62.48	$ 50.79
Combined ($/boe)	$ 52.66	$ 45.79	$ 50.12	$ 47.86	$ 45.40	$ 46.48	$ 46.84	$ 48.10
Wells drilled - gross (net)	11 (7.8)	18 (9.9)	4 (3.6)	11 (6.0)	9 (1.8)	12 (9.2)	5 (1.0)	21 (15.6)

(1) On a proforma basis, if the Sequoia acquisition had been completed on September 1, 2006, the payout ratio would have been 88% for Q3 2006.

(2) Excludes unrealized gain (loss) on derivative contracts and future income tax liability.

Annual Information

Financial *(in thousands of dollars, except unit, per unit and boe data)*	**2009**	2008	2007	2006	2005
Petroleum and natural gas revenues	**$ 361,337**	$ 501,737	$ 366,956	$ 297,333	$ 276,573
Royalties	**(78,055)**	(98,264)	(67,767)	(57,281)	(49,977)
Realized gain (loss) on derivative contracts	**105,036**	(6,514)	6,967	(42)	(390)
Operating expenses	**(115,021)**	(92,337)	(93,866)	(67,354)	(52,073)
Transportation expenses	**(10,047)**	(8,202)	(7,857)	(6,493)	(4,055)
Operating netback	**263,250**	296,420	204,433	166,163	170,078
G&A – cash charge	**(27,959)**	(16,879)	(15,233)	(13,181)	(9,856)
Cash financial charges	**(19,530)**	(21,127)	(23,271)	(11,199)	(10,063)
Provision for non-recoverable accounts receivable	**-**	(1,800)	-	-	-
Other income [(1)]	**-**	7,806	-	-	-
Cash taxes	**-**	-	-	(58)	(1,277)
Funds from operations	**215,761**	264,420	165,929	141,725	148,882
Per unit – Basic	**1.76**	3.17	2.16	2.80	4.59
– Diluted	**1.65**	2.89	2.10	2.71	4.20
Cash provided by operating activities	**189,437**	259,759	167,385	113,105	133,219
Net income (loss)	**(23,574)**	160,519	(96,267)	(257,823)	64,060
Per unit – Basic	**(0.19)**	1.92	(1.26)	(5.09)	2.06
– Diluted	**(0.19)**	1.80	(1.26)	(5.09)	1.99
Cash distributions declared	**119,107**	117,017	118,891	127,922	72,585
Per unit	**0.96**	1.38	1.55	2.47	2.26
Payout ratio	**55%**	44%	72%	n/a[(2)]	49%
Capital expenditures	**162,757**	165,919	96,380	92,802	72,539
Cash property acquisitions	**-**	66,571	-	32,729	-
Cash property divestitures	**-**	(87,695)	-	-	-
Non-cash property acquisitions	**-**	26,887	-	-	-
Non-cash property divestitures	**-**	-	-	(27,728)	(14,636)
Corporate acquisitions	**658,105**	36,433	-	527,691	177,509
Market value of investments	**11,302**	2,285	13,068	22,860	-
Bank debt	**260,172**	219,853	257,342	349,336	123,455
Working capital deficiency[(3)]	**101,482**	42,275	32,088	22,624	26,575
Convertible debentures	**117,897**	115,201	119,792	3,515	9,219
Total assets	**1,727,814**	1,058,195	922,344	1,114,085	841,254
Units outstanding (000s)					
Basic	**174,216**	90,239	77,657	74,322	40,806
Diluted	**189,831**	106,050	93,850	75,309	43,854
Operations					
Average daily production					
Natural gas (mcf/d)	**106,232**	76,805	73,279	63,648	56,306
Light oil (bbls/d)	**5,231**	4,754	4,526	3,269	2,476
Heavy oil (bbls/d)	**2,095**	2,354	2,447	2,709	1,631
NGLs (bbls/d)	**1,891**	1,136	1,275	908	815
Oil & NGLs (bbls/d)	**9,217**	8,244	8,248	6,886	4,922
Combined (boe/d)	**26,922**	21,045	20,461	17,494	14,307
Average prices received					
Natural gas ($/mcf)	**$ 4.18**	$ 8.41	$ 6.67	$ 6.64	$ 8.87
Light oil ($/bbl)	**65.52**	97.52	71.54	67.15	62.83
Heavy oil ($/bbl)	**54.03**	76.01	48.52	44.24	36.35
NGLs ($/bbl)	**47.73**	72.22	57.99	58.09	53.47
Oil & NGLs ($/bbl)	**$ 59.26**	$ 87.89	$ 62.62	$ 56.94	$ 52.51
Combined ($/boe)	**$ 36.77**	$ 65.14	$ 49.14	$ 46.57	$ 52.97
Wells drilled - gross (net)	**59 (25.7)**	50 (21.4)	44 (27.3)	47 (27.6)	71 (40.6)

(1) Termination fee of $9.0 million relates to termination of arrangement with Cadence Energy Inc., less transaction costs of $1.2 million.

(2) On a proforma basis, if the Sequoia acquisition had been completed on September 1, 2006, the payout ratio would have been 83% for 2006.

(3) Excludes unrealized gain (loss) on derivative contracts and future income tax liability.

Dated March 2, 2010

MANAGEMENT'S RESPONSIBILITY STATEMENT

The consolidated financial statements of Daylight Resources Trust and all information in this report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include amounts that are based on estimates, which have been objectively developed by management using all relevant information. All financial and operating data in this report is consistent with the information in the consolidated financial statements.

Daylight Resources Trust maintains appropriate systems of internal control to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or misuse and financial records are properly maintained to provide reliable information for the preparation of financial statements. Daylight Resources Trust has effective disclosure controls and procedures to ensure timely and accurate disclosure of material information relating to the Trust which complies with the current requirements of Canadian securities legislation.

KPMG LLP, an independent firm of chartered accountants, has been engaged to examine the financial statements and provide their auditors' report. Their report is presented with the consolidated financial statements.

The Board of Directors are responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors carries out this responsibility principally through its Audit Committee. The Audit Committee is comprised entirely of independent directors and meets regularly with management and with the Trust's external auditors to discuss the results of their audit examination and to review issues related thereto. The external auditors have full access to the Audit Committee with and without the presence of management. The Audit Committee reviews the consolidated financial statements and Management's Discussion and Analysis and recommends their approval to the Board of Directors.

Signed *"Anthony Lambert"*

Anthony Lambert
President and CEO

Signed *"Steve Nielsen"*

Steve Nielsen
Vice President and CFO

Calgary, Alberta
March 2, 2010

AUDITORS' REPORT TO THE UNITHOLDERS

We have audited the consolidated balance sheets of Daylight Resources Trust as at December 31, 2009 and 2008 and the consolidated statements of income (loss), comprehensive income (loss) and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed *"KPMG LLP"*

Chartered Accountants

Calgary, Canada
March 2, 2010

Consolidated Balance Sheets

As at December 31,

(in thousands of dollars)

		2009		2008
Assets				
Current assets				
Accounts receivable (note 13)	$	**74,661**	$	45,502
Prepaid expenses and deposits		**4,944**		3,577
Unrealized gain on derivative contracts (note 13)		**194**		71,535
		79,799		120,614
Investments (note 4)		**5,103**		2,285
Property, plant and equipment (note 5)		**1,642,912**		923,465
Deferred financing charges (note 8)		**-**		100
Future income tax asset (note 12)		**-**		11,731
	$	**1,727,814**	$	1,058,195
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	$	**167,150**	$	76,090
Distributions payable		**13,937**		11,731
Future income tax liability (note 12)		**55**		20,745
Current portion of convertible debentures (note 7)		**-**		3,533
		181,142		112,099
Bank debt (note 6)		**260,172**		219,853
Convertible debentures (note 7)		**117,897**		115,201
Asset retirement obligations (note 9)		**47,184**		22,110
Future income tax liability (note 12)		**32,819**		-
		639,214		469,263
Unitholders' Equity				
Unitholders' capital (note 10)		**1,822,041**		1,181,868
Contributed surplus (note 10)		**6,437**		4,155
Equity component of convertible debentures (note 7)		**8,974**		9,080
Deficit		**(748,852)**		(606,171)
		1,088,600		588,932
	$	**1,727,814**	$	1,058,195

Commitments and contingencies (note 15)

Subsequent event (note 16)

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Income (Loss), Comprehensive Income (Loss) and Deficit

Years ended December 31,

(in thousands of dollars, except per unit amounts)

	2009	2008
Revenues		
Petroleum and natural gas	$ 361,337	$ 501,737
Royalties	(78,055)	(98,264)
Other income (note 3)	-	7,806
Gain on financial instruments (note 13)	33,286	59,478
	316,568	470,757
Expenses		
Operating	115,021	92,337
Transportation	10,047	8,202
General and administrative	32,746	22,825
Financial charges (note 8)	22,403	22,566
Provision for non-recoverable accounts receivable (note 13)	-	1,800
Loss on equity method investment (note 4)	831	1,873
Depletion, depreciation and accretion	213,148	151,787
Write down of equity investment (note 4)	-	3,367
	394,196	304,757
Income (loss) before taxes	(77,628)	166,000
Future tax provision (reduction) (note 12)	(54,054)	5,481
Net income (loss) and comprehensive income (loss)	(23,574)	160,519
Deficit, beginning of year	(606,171)	(649,673)
Distributions (note 10)	(119,107)	(117,017)
Deficit, end of year	$ (748,852)	$ (606,171)
Net income (loss) per unit (note 10)		
Basic	$ (0.19)	$ 1.92
Diluted	$ (0.19)	$ 1.80

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31,

(in thousands of dollars)

	2009	2008
Cash provided by (used in):		
Operating		
Net income (loss)	$ (23,574)	$ 160,519
Items not affecting cash:		
Depletion, depreciation and accretion	213,148	151,787
Future tax provision (reduction)	(54,054)	5,481
Non-cash financial charges (note 8)	2,873	1,439
Unit-based compensation	4,787	5,946
Unrealized (gain) loss on financial instruments	71,750	(65,992)
Loss on equity method investment	831	1,873
Write down of equity investment (note 4)	-	3,367
Asset retirement expenditures (note 9)	(6,126)	(3,800)
Change in non-cash operating working capital (note 11)	(20,198)	(861)
Cash provided by operating activities	189,437	259,759
Financing		
Bank debt	(29,268)	(40,489)
Issue of trust units, net of issue costs (note 10)	163,108	522
Trust units repurchased	-	(3,835)
Convertible debentures issued, net of issue costs	(16)	71,773
Repayment of convertible debentures	(3,576)	-
Cash distribution to unitholders	(116,901)	(113,052)
Repayments on obligation under capital lease	-	(932)
Change in non-cash financing working capital (note 11)	(2,268)	(646)
Cash provided by (used in) financing activities	11,079	(86,659)
Investing		
Petroleum and natural gas asset additions	(162,757)	(165,919)
Corporate acquisitions (note 3)	(82,471)	(29,597)
Property acquisitions (note 5)	-	(66,571)
Proceeds on disposition of investment (note 4)	366	-
Investment in Midway Energy Ltd. (note 4)	(214)	-
Proceeds on property disposition (note 5)	-	87,695
Change in non-cash investing working capital (note 11)	44,560	1,292
Cash used in investing activities	(200,516)	(173,100)
Change in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	$ -	$ -

Cash is defined as cash and cash equivalents.

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

(Tabular amounts are stated in thousands of dollars except unit, share, and per unit amounts)

Daylight Resources Trust ("Daylight" or the "Trust") is an open-ended, unincorporated investment trust governed by the laws of the Province of Alberta pursuant to a Trust Indenture. Valiant Trust Company has been appointed trustee under the Trust Indenture. The beneficiaries of the Trust are the holders of the trust units ("unitholders").

The purpose of the Trust is to explore for, develop and hold interests in petroleum and natural gas properties through investments in securities of subsidiaries and royalty interests in oil and natural gas properties. The business of the Trust is carried on by Daylight Energy Ltd. ("Daylight Energy") and its subsidiaries. The Trust owns 100% of the common shares of Daylight Energy. The activities of Daylight Energy are financed through internally generated funds from operations and third party debt as described in note 6.

Pursuant to the terms of an agreement (the "NPI Agreement"), the Trust is entitled to a payment from Daylight Energy each month equal to the amount by which 99% of the gross proceeds from the sale of production exceeds 99% of certain deductible expenditures as defined under the terms of the NPI Agreement. Deductible expenditures may include amounts, determined on a discretionary basis, to fund capital expenditures, to repay debt and to provide for working capital required to carry out the operations of Daylight Energy.

The Trust may declare payable to the unitholders all or any part of the net income of the Trust earned from the income generated under the NPI Agreement, and from any dividends paid on the common shares of Daylight Energy, less any expenses of the Trust including interest on convertible debentures. The Trust intends to continue to make cash distributions; however, these distributions cannot be guaranteed.

Daylight is involved in the exploitation, development and production of petroleum and natural gas in Alberta, British Columbia and Saskatchewan.

1. Significant Accounting Policies

The consolidated financial statements are stated in Canadian dollars, have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of the Trust and its wholly owned subsidiaries. Preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the period. Actual results may differ materially from those estimates.

Specifically, the amounts recorded for the depletion and depreciation of petroleum and natural gas assets and for the accretion of asset retirement obligations are based on estimates. The ceiling test is based on estimates of reserves, production rates, oil and gas prices, future costs and other relevant assumptions. The amounts for unit-based compensation are based on estimates of unit price and performance factors, while the fair value estimates for derivative contracts are based on expected future crude oil and natural gas prices. Future income taxes are based on estimates as to the timing of the reversal of temporary differences and tax rates currently substantively enacted. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be material.

Principles of Consolidation

The consolidated financial statements include the accounts of the Trust, its subsidiaries and partnerships. Any reference to "the Trust" throughout these consolidated financial statements refers to the Trust, its subsidiaries and partnerships. All inter-entity balances and transactions have been eliminated.

Property, Plant and Equipment

Daylight follows the full cost method of accounting for petroleum and natural gas operations whereby all costs related to the acquisition, exploration and development of petroleum and natural gas reserves are capitalized and accumulated in one cost centre as all operations are in Canada. Such costs include lease acquisition costs, geological and geophysical costs, carrying charges of non-producing properties, costs of drilling both productive and non-productive wells, the cost of petroleum and natural gas production equipment, asset retirement costs and overhead charges related to exploration and development activities.

Daylight evaluates its petroleum and natural gas assets in each reporting period to determine that the costs are recoverable and the costs do not exceed the fair value of the properties. If the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost less impairment of unproved properties exceed the carrying value of the petroleum and natural gas assets, the costs are considered recoverable. If the carrying value of the petroleum and natural gas assets is not considered to be recoverable, an impairment loss is recognized and charged against net income to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost less impairment of unproved properties. The cash flows are estimated using future product prices and costs and are discounted using a risk-free rate.

Proceeds from the disposition of petroleum and natural gas properties are applied against capitalized costs except for dispositions that would change the rate of depletion and depreciation by 20% or more, in which case a gain or loss would be recorded.

Depletion of petroleum and natural gas assets and depreciation of production equipment are calculated using the unit-of-production method, based on volumes of total proved petroleum and natural gas reserves and production, before royalties, converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil, calculated in accordance with National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities. The depletable base includes all capitalized costs, excluding undeveloped lands, plus estimated future development costs of proved undeveloped reserves, and future estimated asset retirement costs.

The cost of acquisition and evaluation of unproved properties are initially excluded from the depletion calculation. A separate impairment test is performed on these assets to determine whether the carrying value exceeds the fair value. Any excess in carrying value over fair value is an impairment. When proved reserves are assigned or a property is considered to be impaired, the cost of the property or the amount of the impairment will be added to the capitalized costs for the calculation of depletion.

Goodwill

The Trust must record goodwill relating to a corporate acquisition when the total purchase price exceeds the fair value for accounting purposes of the net identifiable assets and liabilities of the acquired company. The goodwill balance is assessed for impairment annually at year end or as events occur that could result in an impairment. Impairment is recognized based on the fair value of the reporting entity (consolidated Trust) compared to the book value of the reporting entity. If the fair value of the consolidated Trust is less than the book value, impairment is measured by allocating the fair value of the consolidated Trust to the identifiable assets and liabilities as if the Trust had been acquired in a business combination for a purchase price equal to its fair value. The excess of the fair value of the consolidated Trust over the amounts assigned to the identifiable assets and liabilities is the implied fair value of the goodwill. Any excess of the book value of goodwill over this implied fair value of goodwill is the impairment amount. Impairment is charged to net income in the period in which it occurs. Goodwill is stated at cost less impairment and is not amortized.

Asset Retirement Obligations

Daylight recognizes the fair value of an Asset Retirement Obligation ("ARO") in the period in which it is incurred when a reasonable estimate of the fair value can be made. On a periodic basis, management will review these estimates and changes to the estimate, if any, will be applied on a prospective basis. The fair value of the estimated ARO is recorded as a long-term liability with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a unit-of-production basis over the life of the reserves. The liability amount is increased each reporting period due to the passage of time and the

amount of accretion is charged to earnings in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost would also result in an increase or decrease to the ARO. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded.

Revenue Recognition

Revenue associated with the sale of crude oil, natural gas and natural gas liquids ("NGLs") is recognized when legal title passes to the purchaser.

Transportation

Costs paid by the Trust for the transportation of natural gas, crude oil, and NGLs from the wellhead to the point of title transfer are recognized when the transportation is provided.

Taxes

The Trust follows the asset and liability method of accounting for income taxes. Under this method, income tax assets and liabilities are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax basis, using substantively enacted income tax rates expected to be in effect when the temporary differences are anticipated to reverse. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in net income in the period that the change occurs.

Flow-Through Shares

The tax attributes of expenditures financed by the issuance of flow-through shares are renounced to investors in accordance with income tax legislation. A future tax liability is recognized upon the renunciation of tax pools and share capital is reduced by a corresponding amount.

Joint Operations

Daylight conducts development and production activities jointly with others. These financial statements only reflect Daylight's proportionate interest in such activities.

Cash and Cash Equivalents

Daylight considers cash and investments with a maturity of three months or less to be cash equivalents.

Investments

Investments are comprised of common shares of publicly traded companies and one private company. Investments in which the Trust may exercise significant influence are accounted for using the equity method where the recorded amount of the investment is increased or decreased for the Trust's ownership percentage of the companies' net earnings or loss and reduced by dividends paid to the Trust. The Trust evaluates the carrying value of its equity investments at least annually or more frequently should economic events dictate. If there has been a decline in value of an investment, other than a temporary decline, the investment is written down to its market value and the impairment charged to net income.

Investments in which the Trust does not exercise significant influence are classified as financial assets held for trading. Financial assets held for trading are initially recorded at their fair value with changes in their fair value recognized in net income.

Unit-based Compensation

The Trust has established a unit award incentive plan for employees, officers, directors and other service providers. The Trust uses the fair value method for valuing unit-based compensation. Under this method, compensation cost attributable to the unit awards are measured at the fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Upon conversion of the unit awards, the previously recognized value in contributed surplus will be recorded as an increase to unitholders' capital. The Trust has not incorporated an estimated forfeiture rate for unit awards that will not vest and accounts for actual forfeitures as they occur.

Per Unit Information

Basic net income per unit is calculated using the weighted average number of units outstanding during the year. Diluted net income per unit is calculated using the treasury stock method to determine the dilutive effects of grants under the unit award incentive plan and also considers the impact of the conversion of the convertible debentures. Interest and accretion on convertible debentures is added back to net income in calculating diluted net income per unit.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Upon initial recognition, all financial instruments, including all derivative contracts, are recognized on the balance sheet at fair value. Subsequent measurement is then based on the financial instruments being classified into one of five categories: held for trading, held to maturity, loans and receivables, available for sale and other liabilities. The Trust has designated its cash and cash equivalents and investments, other than equity method investments, as held for trading which are measured at fair value. Accounts receivable are classified as loans and receivables which are measured at amortized cost. Accounts payable and accrued liabilities, distributions payable and bank debt are classified as other liabilities which are measured at amortized cost, which is determined using the effective interest method. The convertible debentures are classified as debt on the balance sheet with a portion of the proceeds allocated to equity. The debt component has been measured at amortized cost.

The Trust is exposed to market risks resulting from fluctuations in commodity prices, foreign exchange rates and interest rates in the normal course of operations. A variety of derivative instruments may be used by the Trust to reduce its exposure to fluctuations in commodity prices, foreign exchange rates, and interest rates. The Trust does not use these derivative instruments for trading or speculative purposes. The Trust considers all of these transactions to be economic hedges; however, the majority of the Trust's contracts do not qualify or have not been designated as hedges for accounting purposes. As a result, all derivative contracts are classified as held for trading and are recorded on the balance sheet at fair value, with changes in the fair value recognized in net income, unless specific hedge criteria are met. The fair values of these derivative instruments are based on an estimate of the amounts that would have been received or paid to settle these instruments prior to maturity given future market prices and other relevant factors. Proceeds and costs realized from holding the derivative contracts are recognized in net income at the time each transaction under a contract is settled.

The Trust has elected to account for its physical delivery sales contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items in accordance with its expected purchase, sale or usage requirements as executory contracts on an accrual basis rather than as non-financial derivative contracts.

The Trust measures and recognizes embedded derivative contracts separately from the host contracts when the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract, when it meets the definition of a derivative and when the entire contract is not measured at fair value. Embedded derivative contracts are recorded at fair value.

The Trust nets all transaction costs incurred, in relation to the acquisition of a financial asset or liability, against the related financial asset or liability. In accordance with this policy, convertible debentures are recorded net of issue costs and bank debt is presented net of deferred interest payments, with interest recognized in net income on an effective interest basis.

The Trust applies trade-date accounting for the recognition of a purchase or sale of cash equivalents, investments and derivative contracts.

Presentation

Certain prior period balances have been reclassified to conform to the current period's presentation.

2. Changes in Accounting Polices

Financial Instruments - Disclosures

In May 2009, the CICA amended Section 3862, "Financial Instruments – Disclosures" to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. These amendments became effective for the Trust on December 31, 2009 and resulted in increased disclosure. See note 13.

Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", replacing Section 3062 "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs". Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The adoption of the section did not impact the Trust's financial results.

Future Accounting Changes

Business Combinations

In January 2009, the CICA issued Section 1582, "Business Combinations". This section is effective January 1, 2011 and applies prospectively to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2011 for the Trust. Early adoption is permitted. This section replaces Section 1581, "Business Combinations" and harmonizes the Canadian standards with IFRS.

Consolidated Financial Statements and Non-Controlling Interests

In January 2009, The AcSB issued Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests", which together replace Section 1600, "Consolidated Financial Statements", and harmonize the Canadian standards with IFRS. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These sections are effective for the first reporting period beginning on or after January 1, 2011. Early adoption is permitted.

3. Corporate Acquisitions

Highpine Oil & Gas Limited

On October 8, 2009, Daylight acquired all of the issued and outstanding class "A" common shares of Highpine Oil & Gas Limited ("Highpine"). As consideration, Daylight paid cash of $46.3 million before transaction costs of $3.5 million and issued 51,413,561 trust units at approximately $8.11 per trust unit, based on Daylight's weighted average trading price at the August 23, 2009 announcement date. The operations of Highpine have been included with the results of the Trust commencing October 8, 2009. The transaction was accounted for by the purchase method based on fair values as follows:

Net assets acquired:		
Property, plant and equipment	$	623,007
Bank debt		(41,953)
Working capital deficiency		(28,910)
Investments		1,475
Fair value of derivative contracts		1,573
Asset retirement obligations		(19,727)
Future income tax liability		(68,865)
Total	$	466,600

Consideration:		
Cash	$	46,345
Units issued		416,716
Transaction costs		3,539
Total	$	466,600

The above amounts are estimates based on information available to the Trust at the time of preparation of these financial statements. Accordingly, these amounts are subject to changes as cost estimates and values are finalized.

Intrepid Energy Corporation

On June 5, 2009, Daylight acquired all of the issued and outstanding shares of Intrepid Energy Corporation ("Intrepid"). As consideration, Daylight paid cash of $32.0 million before transaction costs of $0.6 million and issued 7,249,937 trust units at a price of approximately $7.40 per trust unit. The unit price was based on the weighted average trading price of the units at the date of announcement being April 27, 2009. The operations of Intrepid have been included with the results of the Trust commencing June 5, 2009. The transaction was accounted for by the purchase method based on fair values as follows:

Net assets acquired:		
Property, plant and equipment	$	134,505
Bank debt		(27,634)
Working capital deficiency		(9,530)
Fair value of derivative contracts		1,162
Asset retirement obligations		(1,741)
Future income tax liability		(10,549)
Total	$	86,213

Consideration:		
Cash	$	31,994
Units issued		53,626
Transaction costs		593
Total	$	86,213

The above amounts are estimates based on information available to the Trust at the time of preparation of these financial statements. Accordingly, these amounts are subject to changes as cost estimates and values are finalized.

Athlone Energy Ltd.

On September 17, 2008, Daylight acquired all of the issued and outstanding shares of Athlone Energy Ltd. ("Athlone"). As consideration, Daylight paid cash of $29.3 million before transaction costs of $0.3 million. The operations of Athlone have been included with the results of the Trust commencing September 18, 2008. The transaction was accounted for by the purchase method based on fair values as follows:

Net assets acquired:		
Property, plant and equipment	$	44,310
Bank debt		(3,000)
Working capital deficiency		(3,836)
Asset retirement obligations		(797)
Future income tax liability		(7,080)
Total	$	29,597

Consideration:		
Cash	$	29,335
Transaction costs		262
Total	$	29,597

Cadence Energy Inc.

On May 26, 2008, Daylight and Cadence Energy Inc. ("Cadence") announced that they had entered into an agreement whereby Daylight would acquire all of the issued and outstanding common shares of Cadence pursuant to a Plan of Arrangement. On July 20, 2008, Daylight and Cadence terminated the arrangement agreement due to another offer. As a result, Cadence paid Daylight a $9.0 million termination fee which was received on July 21, 2008. This amount, net of transaction costs of $1.2 million, has been reported as other income.

4. Investments

			2009		2008	
Entity	Symbol	Number of Shares or Units		Equity or Fair Value		Equity or Fair Value
Bengal Energy Ltd.	BNG	4,260,000	$	532	$	1,363
Midway Energy Ltd.	MEL	1,046,511		3,108		385
Harvest Energy Trust	HTE	-		-		537
Insignia Energy Ltd.	ISN	167,688		366		-
Dorado Energy Inc.	-	1,080,000		1,097		-
Total			$	5,103	$	2,285

Daylight owns 4,260,000 common shares of Bengal Energy Ltd. ("Bengal"), representing a 23% interest, and accounts for the investment using the equity method. For the year ended December 31, 2009, the equity loss on the investment in Bengal was $0.8 million (2008 - $1.9 million). At December 31, 2008, the investment in Bengal was written down to its market value and the impairment of $3.4 million was charged to net income. As at December 31, 2009, the market value of the investment in Bengal was $6.7 million (2008 - $1.4 million).

Daylight owns 1,046,511 common shares of Midway Energy Ltd. ("Midway"), formerly Trafalgar Energy Ltd., with a value of $3.1 million at December 31, 2009. During the year ended December 31, 2009, Daylight acquired 306,273 common shares of Midway at a cost of $0.70 per share through the exercise of warrants. Daylight accounts for this investment at fair value based on the quoted market price.

Daylight owns 167,688 common shares of Insignia Energy Ltd. ("Insignia") with a value of $0.4 million at December 31, 2009. This investment was acquired through the Highpine acquisition described in note 3. Daylight accounts for this investment at fair value based on the quoted market price.

Daylight, through the Highpine acquisition described in note 3, owned 1,080,000 common shares of Dorado Energy Inc. ("Dorado"), a private company, with a value of $1.1 million at December 31, 2009. On January 20, 2010, Wild Stream Exploration Inc. ("Wild Stream"), a publicly traded company, acquired all of the issued and outstanding common shares of Dorado based on an exchange ratio of 0.2 of a Wild Stream share for each Dorado share held. Daylight accounts for this investment at its estimated fair value.

Daylight owned 36,600 trust units of Harvest Energy Trust ("Harvest"), formerly Pegasus Oil & Gas Inc. On December 22, 2009, Korea National Oil Corporation acquired all of the issued and outstanding trust units of Harvest Energy Trust for $10.00 per trust unit. Daylight tendered its 36,600 trust units for cash proceeds of $366,000. Daylight realized a loss of $4.4 million on the disposal as shown in note 13.

Daylight continues to consider its investments in Bengal, Midway, Insignia and Dorado as available for disposition.

5. Property, Plant and Equipment

	Cost	Accumulated depletion and depreciation	Net book value
Property, plant and equipment	$ 2,330,333	$ 689,869	$ 1,640,464
Other assets	6,620	4,172	2,448
Balance, December 31, 2009	$ 2,336,953	$ 694,041	$ 1,642,912

	Cost	Accumulated depletion and depreciation	Net book value
Property, plant and equipment	$ 1,401,340	$ 480,681	$ 920,659
Other assets	6,173	3,367	2,806
Balance, December 31, 2008	$ 1,407,513	$ 484,048	$ 923,465

During the year ended December 31, 2009, Daylight capitalized $14.0 million (2008 - $10.2 million) of general and administrative expenses related to exploration and development activities. Included in this amount is $1.9 million (2008 - $1.6 million) of non-cash unit-based compensation and the related tax effect of $0.6 million (2008 - $0.5 million). Future development costs of $291.3 million (2008 - $113.4 million) associated with proved reserves were included in the depletion and depreciation calculation. Future salvage value of production equipment and facilities of $69.7 million (2008 - $34.4 million) and a cost of $129.6 million (2008 - $39.5 million) for unproved properties have been excluded from the depletion and depreciation calculation.

At December 31, 2009 Daylight applied a ceiling test to its petroleum and natural gas assets and determined that no impairment had occurred. The ceiling test was calculated using the following expected future market prices:

Benchmark reference price forecast	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
WTI ($US/bbl)	80.00	83.00	86.00	89.00	92.00	93.84	95.72	97.64	99.59	101.58
Edmonton Par ($Cdn/bbl)	83.26	86.42	89.58	92.74	95.90	97.84	99.81	101.83	103.88	105.98
AECO ($Cdn/mmbtu)	5.96	6.79	6.89	6.95	7.05	7.16	7.42	7.95	8.52	8.69
Exchange rate ($US/$Cdn)	0.95	0.95	0.95	0.95	0.95	0.95	0.95	0.95	0.95	0.95

After 2019 the price forecast for WTI, Edmonton Par and AECO escalates at 2% per year to the end of the reserve life and the exchange rate remains constant at 0.95.

Property Acquisitions and Dispositions

On December 1, 2008, Daylight acquired certain working interests in petroleum and natural gas properties in the Elmworth area for cash of $64.6 million. This acquisition included an allocation of $12.0 million to undeveloped land and seismic. Daylight recorded $0.1 million in associated asset retirement obligations.

On October 31, 2008, Daylight acquired from Midnight Oil Exploration Ltd. ("MOX") certain working interests in petroleum and natural gas properties in the West Central area and entered into a farmin arrangement on over 40 gross sections of land in the Elmworth and Peace River Arch areas in exchange for 3.75 million trust units and $2.0 million cash. Based on the exchange amount of $7.17 per unit, total consideration for the

petroleum and natural gas assets was $28.9 million. MOX is a related party as described in note 14. Daylight has recorded $0.9 million in associated asset retirement obligations.

On September 30, 2008, Daylight disposed of certain working interests in petroleum and natural gas properties in the Sturgeon Lake area for cash proceeds of $87.7 million, plus the removal of $3.3 million of associated asset retirement obligations.

6. Bank Debt

Daylight has a total of $500 million (2008 - $350 million) available under revolving term credit facilities with a syndicate of banks of which $260 million (2008 - $220 million) was drawn at December 31, 2009. The effective interest rate for the bank debt was 2.8% for the year ended December 31, 2009 (2008 – 4.5%). The credit facilities bear interest based on the lenders' prime rate and/or at money market rates plus a stamping fee. The facilities are secured with a demand debenture of $1.0 billion over the petroleum and natural gas assets and are subject to semi-annual review where the lenders may re-determine the borrowing base.

Pursuant to the terms of the revolving credit facilities dated May 7, 2008, Daylight may, with the bank's approval, extend the revolving period from April 30, 2010 for a further 364 day period. If not extended, the revolving facility will automatically convert to a one year and one day non-revolving term facility with the entire payment due on the 366th day after commencement of the term period. The available lending limits of the facilities are based on the syndicate's interpretation of the Trust's reserves and future commodity prices. There can be no assurance that the amount available under the credit facilities will not decrease at the next scheduled review on or before April 30, 2010.

7. Convertible Debentures

On December 19, 2008, Daylight issued $75 million principal amount of 10% Convertible Unsecured Subordinated Debentures, Series C ("Series C Debentures") for net proceeds of $71.7 million. The Series C Debentures pay interest semi-annually on December 31 and June 30, commencing with the initial interest payment on June 30, 2009 and have a maturity date of December 31, 2013. The Series C Debentures are convertible at the option of the holder to trust units at a conversion price of $9.60 per trust unit. The Trust has the option to redeem the Series C Debentures at a price of $1,050 per Series C Debenture after December 31, 2011 and on or before December 31, 2012 and at a price of $1,025 per Series C Debenture after December 31, 2012 and before the maturity date of December 31, 2013 and on maturity at $1,000 per Series C Debenture. On redemption or maturity the Trust may elect to repay the principal and satisfy its interest obligations by issuing Daylight trust units.

The Series C Debentures were initially recorded at $67.6 million representing the fair value of the obligation net of the fair value of the conversion feature of $7.4 million. The fair value of the conversion feature of $7.4 million has been recorded in unitholders' equity. The Series C Debenture liability has been further reduced by $3.3 million for associated transaction costs.

On October 3, 2007, Daylight issued $125 million principal amount of 8.5% Convertible Unsecured Subordinated Debentures, Series B ("Series B Debentures") for net proceeds of $119.6 million. The Series B Debentures pay interest semi-annually on October 31 and April 30, commencing with the initial interest payment on April 30, 2008 and have a maturity date of October 31, 2012. The Series B Debentures are convertible at the option of the holder to trust units at a conversion price of $8.60 per trust unit. The Trust has the option to redeem the Series B Debentures at a price of $1,050 per Series B Debenture after October 31, 2010 and on or before October 31, 2011 and at a price of $1,025 per Series B Debenture after October 31, 2011 and before the maturity date of October 31, 2012 and on maturity at $1,000 per Series B Debenture. On redemption or maturity the Trust may elect to repay the principal and satisfy its interest obligations by issuing Daylight trust units.

The Series B Debentures were initially recorded at $121.4 million representing the fair value of the obligation net of the conversion feature of $3.6 million. The fair value of the conversion feature of $3.6 million has been recorded in unitholders' equity. The Series B Debenture liability has been further reduced by $5.4 million for associated transaction costs.

On October 21, 2004, Daylight issued $80 million principal amount of 8.5% Convertible Unsecured Subordinated Debentures, Series A ("Series A Debentures") for net proceeds of $76.8 million. Issue costs of $3.2 million were initially classified as deferred financing charges. Due to the change in accounting policy adopted in 2007, the balance of the unamortized costs of $0.1 million was recorded against the convertible debenture liability. The Series A Debentures paid interest semi-annually on June 1 and December 1 and had a maturity date of December 1, 2009. The series A Debentures were convertible at the option of the holder to trust units at a conversion price of $14.07888 per trust unit. The Trust had the option to redeem the Series A Debentures at a price of $1,025 per Series A Debenture after December 1, 2008 and on or before December 1, 2009 and on maturity at $1,000 per Series A Debenture. On maturity, the Trust repaid the outstanding principal and interest obligations in cash.

The Series A Debentures were initially recorded at $77.7 million representing the fair value of the obligation net of the conversion feature of $2.3 million. The fair value of the conversion feature of $2.3 million was recorded in unitholders' equity.

The following table indicates the Convertible Debenture activities, which include the Series A Debentures, the Series B Debentures and the Series C Debentures, for the years ended December 31, 2009 and 2008:

	Face Value	Debt Component	Equity Component
Balance, December 31, 2007	$ 128,576	$ 119,792	$ 3,724
Issued December 19, 2008	75,000	67,580	7,420
Transaction costs on December 19, 2008 issuance	-	(3,300)	-
Transaction costs on October 3, 2007 issuance	-	73	-
Converted to trust units	(71,263)	(66,742)	(2,064)
Accretion and amortization	-	1,331	-
Balance, December 31, 2008	$ 132,313	$ 118,734	$ 9,080
Transaction costs on December 19, 2008 issuance	-	(16)	-
Repayment of matured series A Debentures	(3,576)	(3,576)	(104)
Converted to trust units	(20)	(18)	(2)
Accretion and amortization	-	2,773	-
Balance, December 31, 2009	$ 128,717	$ 117,897	$ 8,974

The following table indicates the Series B Debentures and Series C Debentures outstanding as at December 31, 2009:

	Face Value	Debt Component	Equity Component
Series B Debentures	53,737	51,568	1,556
Series C Debentures	74,980	66,329	7,418
Balance, December 31, 2009	$ 128,717	$ 117,897	$ 8,974

8. Financial Charges

During the years ended December 31, 2009 and 2008, Daylight incurred interest charges on bank debt and convertible debentures as well as the amortization of financial charges and accretion of the convertible debenture liability as follows:

	2009	2008
Bank debt interest	$ 8,179	$ 12,483
Convertible debenture interest	11,351	8,644
Amortization of financial charges	100	108
Accretion of convertible debenture liability	2,773	1,331
Total	$ 22,403	$ 22,566

A reconciliation of the deferred financing charges is provided as follows:

	2009	2008
Balance, beginning of year	$ 100	$ 208
Amortization	(100)	(108)
Balance, end of year	$ -	$ 100

9. Asset Retirement Obligations

Daylight's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. Daylight estimates the total undiscounted cash flow required to settle its asset retirement obligations is approximately $351.5 million (2008 - $118.4 million) which will be incurred between 2010 and 2059. The majority of the costs will be incurred between 2010 and 2031. An inflation factor of 2% has been applied to the estimated asset retirement cost at December 31, 2009 and 2008. A credit-adjusted risk-free rate of 8% -10% has been used to calculate the fair value of the asset retirement obligations.

A reconciliation of the asset retirement obligations is provided as follows:

	2009	2008
Balance, beginning of year	$ 22,110	$ 22,458
Liabilities incurred on corporate acquisitions (note 3)	21,468	797
Liabilities incurred on property acquisitions (note 5)	-	1,041
Liabilities transferred on property dispositions (note 5)	(403)	(3,311)
Change in estimate	4,856	-
Liabilities incurred	2,124	2,302
Liabilities settled	(6,126)	(3,800)
Accretion expense	3,155	2,623
Balance, end of year	$ 47,184	$ 22,110

10. Unitholders' Equity

The Trust Indenture provides that an unlimited number of trust units may be authorized and issued. Each trust unit is transferable, carries the right to one vote and represents an equal undivided beneficial interest in any distributions from the Trust and in the assets of the Trust in the event of termination or winding-up of the Trust. All trust units are of the same class with equal rights and privileges.

a) Trust Units

	Number of Units	Amount
Balance, December 31, 2007	77,657,133	$ 1,083,664
Issued on vesting of Trust Unit Awards	562,729	4,221
Issued on conversion of debentures	8,286,372	68,806
Issued through Employee Unit Ownership Plan	126,742	1,044
Issued through Employee Bonus Plan	242,467	2,410
Issued on acquisition of property (note 5)	3,750,000	26,887
Cancelled under normal course issuer bid	(386,200)	(5,164)
Balance, December 31, 2008	90,239,243	$ 1,181,868
Issued on vesting of Trust Unit Awards	681,340	4,556
Issued through public offering	24,630,000	172,410
Issued on Intrepid acquisition (note 3)	7,249,937	53,626
Issued on Highpine acquisition (note 3)	51,413,561	416,716
Issued on conversion of debentures	2,083	20
Unit issue costs, net of tax effect of $2,147,000	-	(7,155)
Balance, December 31, 2009	174,216,164	$ 1,822,041

Normal Course Issuer Bid

On October 22, 2009 Daylight filed notice with the Toronto Stock Exchange (the "TSX") to make a normal course issuer bid (the "2009 Bid") to purchase outstanding trust units on the open market through the facilities of the TSX. The TSX has authorized Daylight to purchase up to 17,102,157 trust units, being 10% of the public float, from October 26, 2009 through October 25, 2010 or such earlier time as the 2009 Bid is completed or terminated at the option of the Trust. The Trust will pay for any trust units acquired under the 2009 Bid at the prevailing market price on the TSX at the time of the purchase. The Trust Units acquired under the 2009 Bid will be cancelled.

On July 28, 2008 Daylight filed notice with the TSX to make a normal course issuer bid (the "2008 Bid") to purchase outstanding trust units on the open market through the facilities of the TSX. The TSX authorized Daylight to purchase up to 8,206,753 trust units, being 10% of the public float, from July 30, 2008 through July 29, 2009 or such earlier time as the 2008 Bid was completed or terminated at the option of the Trust. The Trust paid for trust units acquired under the 2008 Bid at the prevailing market price on the TSX at the time of the purchase and trust units acquired under the 2008 Bid were cancelled. For the year ended December 31, 2009, no trust units were purchased and cancelled. For the year ended December 31, 2008, Daylight purchased and cancelled 386,200 trust units at a cost of $3.9 million. The average carrying value of the units repurchased of $5.2 million was charged to unitholders' capital with the excess of $1.3 million charged to contributed surplus.

Premium Distribution Reinvestment and Optional Trust Unit Purchase Plan ("Premium DRIP™")

Daylight has a Premium Distribution Reinvestment and Optional Trust Unit Purchase Plan ("Premium DRIP™") for eligible unitholders of the Trust. On distribution payment dates eligible Premium DRIP™ unitholders may receive in lieu of the cash distribution that unitholders are otherwise entitled to receive in respect of their units, a cash payment equal to 102% of such amount. Unitholders may also reinvest their cash distributions in additional trust units at a price that is 95% of the average market price for the Pricing Period. The Pricing Period refers to the period beginning on the later of the 21st business day preceding the distribution payment date and the second business day following the record date applicable to that distribution payment date, and ending on the second business day preceding the distribution payment date. Eligible Premium DRIP™ unitholders may also make optional cash payments on this date to purchase additional trust units at a price that is equal to the average market price for the Pricing Period. Daylight can prorate or suspend requests for the receipt of amounts under the Premium DRIP™.

Daylight has not issued any trust units under the Premium DRIP™ program since August 2007 when Daylight suspended this program.

Employee Unit Ownership Plan ("EUOP")

Daylight has an Employee Unit Ownership Plan ("EUOP") whereby the Trust matches every dollar contributed by each employee, to a maximum of 11% of the employee's salary. Under the terms of the EUOP, the Trust has the option to acquire trust units on behalf of employees through open market purchases or to issue new trust units from treasury. During the year ended December 31, 2009, the Trust elected to issue no trust units from treasury in settlement of EUOP obligations representing the employee contributions and the Trust's matching contributions. During the year ended December 31, 2008, the Trust elected to issue 126,742 trust units ($1.0 million) from treasury in settlement of EUOP obligations representing the employee contributions and the Trust's matching contributions. The price used to determine the number of trust units issued from treasury on a monthly basis is the average market price for the period beginning on the second business day of the month and ending on the second business day preceding the monthly distribution payment date. Daylight has not issued any trust units from treasury under the EUOP since April 2008.

Redemption Right

Unitholders may redeem their trust units for cash at any time, up to a maximum of $250,000 in any calendar month, by delivering their unit certificates to the Trustee, together with a properly completed notice of redemption. The redemption amount per trust unit will be the lesser of 90% of the market price of the trust units on the principal market on which they are traded during the 10 day trading period after

the trust units have been validly tendered for redemption and the closing market price of the trust units on the principal market on which they are traded on the date on which they were validly tendered for redemption, or if there was no trade of the trust units on that date, the average of the last bid and ask prices of the trust units on that date.

b) Net Income (Loss) Per Unit

The following table summarizes the weighted average trust units, convertible debentures, and Restricted and Performance Trust Unit Awards used in calculating the net income (loss) per trust unit:

	2009	2008
Basic	122,825,134	83,468,313
Convertible debentures	-	10,317,205
Restricted and Performance Trust Unit Awards	-	728,688
Diluted	122,825,134	94,514,206

A total of 14,293,356 (2008 – nil) trust units attributable to convertible debentures and 1,059,453 Restricted and Performance Trust Unit Awards were excluded from the calculation for the year ended December 31, 2009 as they were anti-dilutive. Diluted net income per unit for the year ended December 31, 2008 reflects the add back of interest and accretion expense on convertible debentures of $10.0 million.

c) Trust Unit Award Incentive Plan

Daylight has a Trust Unit Award Incentive Plan which allows the Board of Directors to grant up to 4.3% of the trust units outstanding as Restricted and/or Performance Trust Unit Awards to directors, officers, employees and service providers of Daylight and its affiliates. The Restricted Trust Unit Awards and Performance Trust Unit Awards vest over a two or three-year period. The number of units issued for Performance Trust Unit Awards granted is also subject to a performance multiplier and is dependent on the performance of the Trust relative to a peer comparison group of oil and gas producers. A holder of a Restricted or Performance Trust Unit Award may elect, subject to the consent of Daylight, to receive cash upon vesting in lieu of the number of units held. The plan provides for adjustments to the number of units issued based on the cumulative distributions of the Trust during the period that the Restricted or Performance Trust Unit Award is outstanding.

The following tables reconcile the number of Restricted and Performance Trust Unit Awards outstanding:

Restricted Trust Unit Awards	**Number**
Balance, December 31, 2007	1,037,420
Issued	488,430
Vested and converted to trust units	(324,715)
Forfeited	(134,606)
Balance, December 31, 2008	1,066,529
Issued	254,300
Vested and converted to trust units	(372,663)
Forfeited	(96,532)
Balance, December 31, 2009	851,634
Weighted average adjustment factor	1.27034
Trust unit equivalent	1,081,865

Performance Trust Unit Awards	Number
Balance, December 31, 2007	170,000
Issued	26,250
Vested and converted to trust units	(55,833)
Balance, December 31, 2008	140,417
Issued	339,000
Vested and converted to trust units	(50,835)
Forfeited	(23,333)
Balance, December 31, 2009	405,249
Weighted average adjustment factor	1.17089
Trust unit equivalent	474,502

The performance multiplier is calculated on an annual basis for one third of the Performance Trust Unit Awards originally granted. The performance multiplier may range from 0 to 2 in any given year, as determined by the Board of Directors, and applies to the Performance Trust Unit Awards at vesting.

The fair value of the Trust Unit Awards is determined at the date of grant and amortized through general and administrative expense over the vesting period as unit-based compensation with a corresponding increase to contributed surplus. The weighted average fair value at the date of grant for the Trust Unit Awards granted during the year ended December 31, 2009 was $7.25 per Trust Unit Award (2008 - $8.02). During the year ended December 31, 2009, $6.7 million (2008 - $4.6 million) was charged to general and administrative expense, prior to capitalization.

d) Contributed Surplus

	Amount
Balance, December 31, 2007	$ 2,437
Unit-based compensation	4,610
Vested Trust Unit Awards	(4,221)
Excess of trust unit redemption amount over trust unit stated amount	1,329
Balance, December 31, 2008	$ 4,155
Unit-based compensation	6,734
Vested Trust Unit Awards	(4,556)
Series A Debentures matured	104
Balance, December 31, 2009	$ 6,437

e) Accumulated Distributions

The table below shows the cumulative distributions of Daylight Energy Trust ("DET") in total and per unit as well as per Daylight Resources Trust unit equivalent:

Record Date	per Daylight Unit equivalent*	per DET Unit	Amount
Total 2004 cash distributions	$ 0.36	$ 0.24	$ 9,777
Total 2005 cash distributions	$ 2.26	$ 1.50	$ 72,585
Open Range distribution (cost base)	0.47	0.31	15,235
Total 2005 distributions	$ 2.73	$ 1.81	$ 87,820
Total 2006 cash distributions	$ 1.68	$ 1.12	$ 70,901
Trafalgar distribution (cost base)	0.26	0.17	11,202
Total 2006 distributions	$ 1.94	$ 1.29	$ 82,103
Total distributions since inception	$ 5.03	$ 3.34	$ 179,700

* may not add exactly due to rounding

The table below shows the cumulative distributions and per unit equivalent for Daylight Resources Trust:

Record Date	Per Unit	Amount
Total 2006 cash distributions	$ 0.78	$ 57,021
Total 2007 cash distributions	$ 1.55	$ 118,891
January 31, 2008	0.10	7,769
February 29, 2008	0.10	7,773
March 31, 2008	0.10	7,791
April 30, 2008	0.10	7,868
May 30, 2008	0.10	8,391
June 30, 2008	0.10	8,548
July 31, 2008	0.13	11,216
August 29, 2008	0.13	11,249
September 30, 2008	0.13	11,219
October 31, 2008	0.13	11,731
November 28, 2008	0.13	11,731
December 31, 2008	0.13	11,731
Total 2008 cash distributions	$ 1.38	$ 117,017
January 30, 2009	0.08	7,219
February 27, 2009	0.08	7,219
March 31, 2009	0.08	7,219
April 30, 2009	0.08	7,244
May 29, 2009	0.08	9,215
June 30, 2009	0.08	9,795
July 31, 2009	0.08	9,795
August 31, 2009	0.08	9,795
September 30, 2009	0.08	9,795
October 30, 2009	0.08	13,937
November 30, 2009	0.08	13,937
December 31, 2009	0.08	13,937
Total 2009 cash distributions	$ 0.96	$ 119,107
Total distributions since inception	$ 4.67	$ 412,036

11. Supplemental Cash Flow Information

	2009	2008
Change in non-cash working capital:		
Accounts receivable	$ (29,159)	$ 1,809
Prepaid expenses and deposits	(1,367)	(376)
Accounts payable and accrued liabilities	91,060	2,188
Working capital acquired on acquisitions (note 3)	(38,440)	(3,836)
Change in non-cash working capital	$ 22,094	$ (215)
Relating to:		
Operating activities	$ (20,198)	$ (861)
Financing activities	(2,268)	(646)
Investing activities	44,560	1,292
Change in non-cash working capital	$ 22,094	$ (215)

	2009	2008
Interest and taxes paid:		
Interest paid	$ 18,493	$ 20,814
Taxes paid	$ 82	$ 1,470

12. Taxes

The combined provision for taxes in the consolidated statements of income (loss) reflect an effective tax rate which differs from the expected statutory tax rate. Differences are accounted for as follows:

	2009	2008
Income (loss) before taxes	$ (77,628)	$ 166,000
Statutory income tax rate	29.03%	29.50%
Expected taxes	$ (22,535)	$ 48,970
Add (deduct):		
Net income of the Trust	(34,956)	(36,480)
Non-taxable portion of capital gains (losses)	(217)	439
Future tax rate adjustments	2,087	1,283
Unit-based compensation	1,390	1,757
Revision to estimated tax pools	34	(10,784)
Other	143	296
Total	$ (54,054)	$ 5,481

Future Taxes

The future tax asset (liability) at December 31, 2009 and 2008 is comprised of the tax effect of temporary differences as follows:

	2009	2008
Property, plant and equipment	$ (119,029)	$ (62,913)
Asset retirement obligations	11,952	5,527
Non-capital losses	131,285	56,934
Share issue costs	2,427	728
Attributed Canadian Royalty Income	10,668	10,029
Deferred partnership income	(70,855)	-
Unrealized gain on derivative contracts	(55)	(20,745)
Unrealized loss on investments	733	1,426
Total	$ (32,874)	$ (9,014)

The deferred partnership income is taxable in 2010 but has been included as a reduction to tax pool balances in 2009 as the Trust recognizes tax pools will be required to reduce this taxable income to nil. At December 31, 2009, Daylight Energy and its subsidiaries had $512.5 million of non-capital losses available to carry forward before the tax deferred partnership income of $252.8 million. The non-capital losses expire $11.1 million in 2013, $37.8 million in 2024, $7.6 million in 2025, $59.1 million in 2026, $144.7 million in 2027 and $252.2 million in 2029.

13. Financial Instruments and Risk Management

Overview

The Trust has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Trust's exposure to each of the above risks, the Trust's objectives, policies and processes for measuring and managing risk, and the Trust's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Trust's risk management framework. Daylight's management has implemented and continues to maintain and monitor risk management procedures for the benefit of the organization.

The Trust's risk management policies are established to: (i) Identify and analyze the risks faced by the Trust; (ii) Set appropriate risk limits and controls; and (iii) Monitor risks and consider the implications of market conditions in relation to the Trust's activities.

Credit Risk

Credit risk is the risk of financial loss to the Trust if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from Daylight's receivables from joint venture partners and petroleum and natural gas marketers. As at December 31, 2009, Daylight's receivables consisted of $19.1 million (2008 - $7.5 million) from joint venture partners, $49.8 million (2008 - $33.9 million) of receivables from petroleum and natural gas marketers and $5.8 million (2008 - $4.1 million) of other trade receivables.

Receivables from petroleum and natural gas marketers are normally collected on or about the 25th day of the month following production. Daylight's policy to mitigate credit risk associated with these balances is to maintain marketing relationships with large, established and reputable purchasers that are considered to be creditworthy. Historically, Daylight has not experienced any collection issues related to its petroleum and natural gas marketers with the exception of an issue with SemGroup L.P. ("SemCanada") in 2008 which is described in further detail within this note. Joint venture receivables are typically collected within one to three months of the joint venture bill being issued to the partner. Daylight attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to expenditure and in certain circumstances may require cash deposits in advance of incurring financial obligations on behalf of joint venture partners. However, the receivables are from participants in the petroleum and natural gas sector and collection of the outstanding balances is dependent on industry factors such as changes in commodity prices, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint venture partners as disagreements occasionally arise that increase the potential for non-collection. The Trust does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners; however, Daylight does have the ability to withhold production from joint venture partners in the event of non-payment or may be able to register security on the assets of joint venture partners. Daylight monitors the credit position of its marketers regularly and where deemed appropriate will require collateral such as a letter of credit.

On July 22, 2008, one of Daylight's minor oil marketing and natural gas processing counterparties, SemCanada entered creditor protection. As of that date, Daylight had a receivable from certain subsidiaries of SemCanada of approximately $1.8 million. As of December 31, 2008, Daylight considered collection of this receivable at risk and as such, provided an allowance for doubtful accounts of $1.8 million. During 2009, Daylight settled its claim with SemCanada and recovered $0.1 million. Daylight's management has concluded that its existing credit risk program remains appropriate and has concluded that these events could not have been foreseen by a standard credit risk program. Daylight continues its regular review of purchasers against its credit risk program to ensure credit worthiness given current market conditions.

The derivative contracts asset consists of commodity contracts used to manage the Trust's exposure to fluctuations in commodity prices. The Trust manages the credit risk exposure related to derivative assets by selecting counterparties based on credit ratings and financial stability and by not entering into commodity contracts for trading or speculative purposes. Daylight's policy to mitigate credit risk associated with derivatives is to only enter into derivative contracts with large, established and reputable counterparties that are considered to be creditworthy. Daylight has International Swaps and Derivatives Association ("ISDA") agreements or long form confirmations in place with all of its derivative contract counterparties. These agreements and confirmations provide some credit protection in that they generally allow parties to aggregate amounts owing to each other under all outstanding transactions and settle with a single net amount in the case of a credit event. All derivative contracts outstanding at December 31, 2009 and entered into subsequent to year-end are with counterparties that are members of Daylight's banking syndicate that provide access to bank debt under the revolving term credit facilities described in note 6.

The carrying amount of accounts receivable and derivative contracts represents the maximum credit exposure. Daylight has provided an allowance for doubtful accounts as at December 31, 2009 of $2.4 million (2008 - $1.8 million) which relates primarily to working capital assumed on corporate acquisitions.

As at December 31, 2009 and 2008, Daylight considers its receivables to be fully collectible with receivable aging as follows:

	2009	2008
Current (90 days or less)	$ 67,073	$ 38,820
Past due (more than 90 days)	7,588	6,682
Total	$ 74,661	$ 45,502

Liquidity Risk

Liquidity risk is the risk that the Trust will not be able to meet its financial obligations as they are due. Daylight's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking harm to Daylight's reputation.

Daylight targets a relatively low debt to funds from operations ratio. To manage this, Daylight prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, Daylight utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. To facilitate timing and liquidity requirements as well as a desirable low cost of capital, Daylight has revolving reserve-based credit facilities, as outlined in note 6, that is reviewed at least annually by the lender. On May 7, 2009, Daylight issued 24,630,000 trust units at a price of $7.00 per trust unit for gross proceeds of $172 million. Net proceeds of the issue were used by the Trust to reduce outstanding borrowings on the credit facilities, to fund future growth initiatives and for general corporate purposes. On December 19, 2008, Daylight issued $75 million principal amount of 10% Convertible Unsecured Subordinated Debentures, Series C for net proceeds of $71.8 million. Proceeds of the convertible debenture issuance were used to repay bank debt. On January 5, 2010, Daylight issued $172.5 million of 6.25% Convertible Unsecured Subordinated Debentures, Series D for net proceeds of $165.6 million. Proceeds of the convertible debenture issuance were used to repay bank debt and for general corporate purposes, including the future funding of acquisitions and expanded capital programs.

The following are the contractual maturities of financial liabilities as at December 31, 2009:

	< 1 Year	1 – 2 Years	2 – 5 Years
Accounts payable and accrued liabilities	$ 167,150	$ -	$ -
Distributions payable	13,937	-	-
Bank debt - principal	-	260,172	-
Convertible debentures – face value	-	-	128,717
	$ 181,087	$ 260,172	$ 128,717

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Trust's operations, net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing long-term returns.

The Trust utilizes both financial derivative contracts and physical delivery sales contracts to manage market risks. All such transactions are conducted in accordance with the Trust's established risk management procedures.

Interest Rate Risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Trust is exposed to interest rate risk to the extent that changes in market interest rates will impact the Trust's bank debt which is subject to a floating interest rate. For the year ended December 31, 2009, Daylight's effective interest rate was 2.8% (2008 – 4.5%). If this rate had been 1.8% for the year ended December 31, 2009 (2008 – 3.5%), with all other variables held constant, net income for the period would have been $1.6 million (2008 - $3.0 million) higher due to lower interest expense for the period of $2.2 million (2008 - $4.2 million). An equal and opposite impact would have occurred to net income and interest

expense had interest rates increased for the year ended December 31, 2009 to 3.8% (2008 – 5.5%). The sensitivity to interest rate changes is lower in 2009 as compared to 2008 because of a reduction in outstanding bank debt which averaged $207 million in 2009 compared to $267 million in 2008.

The Trust had no interest rate swap or financial contracts in place as at or during the year ended December 31, 2009.

Foreign Currency Exchange Rate Risk:

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. While substantially all of the Trust's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar.

Daylight assumed a forward exchange rate contract on the acquisition of Highpine. Daylight realized a gain of $1.3 million on this contract which has been included in gain on financial instruments. This contract ended on December 31, 2009.

Commodity Price Risk:

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by not only the relationship between the Canadian and United States dollar, as outlined above, but also world economic events that dictate the levels of supply and demand. The Trust has attempted to mitigate commodity price risk through the use of various financial derivative and physical delivery sales contracts.

The Trust's current policies permit hedging of up to 50% of its petroleum and natural gas production for up to 24 months in the future. These hedging limits can be changed upon approval by the Board of Directors.

As at December 31, 2009, the following derivative contracts were outstanding:

Type of Contract	Commodity	Hedged Volume [(2)]	Hedge Price	Hedge Period
Financial (Collar) [(1)]	Natural gas	5,000 GJ/d	Cdn$4.78/GJ - $7.00/GJ	Jan 1/10 to Aug 31/10

(1) Collar price indicates floor (minimum) and ceiling (maximum).
(2) A GJ converts to a mcf at the rate of 1.055056 GJs per mcf.

Subsequent to December 31, 2009, Daylight entered into the following derivative contracts:

Type of Contract	Commodity	Hedged Volume [(2)]	Hedge Price	Hedge Period
Financial (Swap) [(1)]	Natural gas	5,000 GJ/d	Cdn$5.72/GJ	Apr 1/10 to Mar 31/11
Financial (Swap) [(1)]	Natural gas	30,000 GJ/d	Cdn$5.69/GJ	Apr 1/10 to Mar 31/11
Financial (Swap) [(1)]	Natural gas	10,000 GJ/d	Cdn$5.695/GJ	Apr 1/10 to Mar 31/11

(1) Swap indicates fixed price payable to Daylight in exchange for floating price payable to counterparty.
(2) A GJ converts to a mcf at the rate of 1.055056 GJs per mcf.

The following table provides a summary of the gain (loss) on financial instruments for the years ended December 31, 2009 and 2008:

	2009	2008
Realized gain (loss) on derivative contracts	$ 105,036	$ (6,514)
Realized loss on sale of investment	(4,354)	-
Unrealized gain (loss) on derivative contracts	(74,076)	71,535
Unrealized gain (loss) on investments held for trading (note 4)	6,680	(5,543)
Total	$ 33,286	$ 59,478

The realized loss on sale of investment of $4.4 million includes the loss on this investment from the time Daylight acquired the investment to the time of disposition. In each prior period Daylight had recognized changes in the value of this investment, based on its market price, as an unrealized gain (loss) on investments held for trading and on the sale of this investment these previously recognized unrealized gain (loss) amounts are reversed. During the 2009 year, the net charge to income for the sale of this investment

was $0.2 million which includes a realized loss since inception of $4.4 million net of the reversal of previously recorded unrealized losses on investment of $4.2 million.

The unrealized gain on derivative contracts has been included on the balance sheet with changes in the fair value included in gain (loss) on financial instruments on the statement of income. As at December 31, 2009, if the future strip prices for natural gas were $0.10 per GJ higher or lower, with all other variables held constant, there would be no material impact to net income for the period.

Fair Value of Financial Instruments

Financial instruments include accounts receivable, investments, accounts payable and accrued liabilities, derivative contracts, distributions payable, bank debt, and convertible debentures. Unless otherwise noted, carrying values reflect the current fair value of the Trust's other financial instruments due to the short term to maturity. Certain of these financial instruments including investments in common shares, other than those accounted for under the equity method, and derivative contracts are measured in the financial statements at fair value. These financial instruments require disclosure about how fair value was determined based on significant levels of inputs described in the following hierarchy:

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data

The Trust's investments held for trading have a fair value based on a quoted market value of $4.6 million that also represents their carrying value and are considered Level 1. The equity method investment has a fair value based on a quoted market value of $6.7 million that is greater than its carrying value of $0.5 million. The fair value of derivative contracts as presented on the balance sheet is determined by discounting the difference between the contracted price and published forward price curves as at the balance sheet date, using the remaining contracted natural gas volumes and are considered Level 2. The Trust's bank debt bears interest at a floating market rate and accordingly the fair market value approximates the carrying value. The convertible debentures outstanding at December 31, 2009, with a face value of $128.7 million (2008 - $132.3 million), had a fair value based on a quoted market value of $150.0 million (2008 - $123.2 million).

Capital Management

The Trust targets the maintenance of a strong capital base so as to maintain and potentially increase investor, creditor and market confidence and to sustain the future development of the business. Daylight targets to fully finance its capital expenditures and cash distributions with funds from operations over the longer term but may not fully finance these items within a quarterly or annual period. Funds from operations is based on cash provided by operating activities before the change in non-cash operating working capital and asset retirement expenditures.

Daylight manages its capital structure and makes adjustments to its capital structure in consideration of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. The Trust considers its capital structure to include unitholders' equity, convertible debentures, bank debt and working capital. In order to maintain or adjust the capital structure, the Trust may from time to time issue units, issue convertible debentures, adjust its capital spending or adjust distributions levels. On May 7, 2009, Daylight closed a financing of 24,630,000 trust units at a price of $7.00 per trust unit for gross proceeds of $172 million. Net proceeds of the issue were used by the Trust to reduce outstanding borrowings on the credit facilities, to fund future growth initiatives and for general corporate purposes. On December 19, 2008, Daylight issued $75 million principal amount of 10% Convertible Unsecured Subordinated Debentures, Series C for net proceeds of $71.8 million. Proceeds of the convertible debenture

issuance were used to repay bank debt. On January 5, 2010, Daylight issued $172.5 million of 6.25% Convertible Unsecured Subordinated Debentures, Series D for net proceeds of $165.6 million. Proceeds of the convertible debenture issuance were used to repay bank debt and for general corporate purposes, including the future funding of acquisitions and expanded capital programs.

	2009	2008
Bank debt	$ 260,172	$ 219,853
Working capital deficiency[(1)]	101,482	42,275
Net debt	$ 361,654	$ 262,128
Convertible debentures – long-term	$ 117,897	$ 115,201
Unitholders' equity	$1,088,600	$ 588,932

(1) Excludes unrealized gain on derivative contracts and future income tax liability.

The Trust monitors its capital structure with consideration of the ratio of net debt to annualized funds from operations. This ratio is calculated as net debt, defined as outstanding bank debt plus or minus working capital, excluding the unrealized gain on derivative contracts and future income tax liability, divided by funds from operations on an annualized basis, defined as the preceding six month period times 2.

The Trust's strategy is to maintain a ratio that is considered reasonable and prudent in the circumstances. This ratio may increase at certain times. In order to facilitate the management of this ratio, the Trust prepares annual capital expenditure budgets, which are updated as necessary depending on varying factors including current and forecast commodity prices and production levels, the success of the capital expenditure program and general industry conditions. The annual and updated budgets are approved by the Board of Directors. As at December 31, 2009, Daylight's ratio of net debt to annualized funds from operations, utilizing the current and prior quarter funds from operations times 2, was 1.5 to 1, up from the prior year due to the acquisition of Highpine on October 8, 2009 for which only one quarter of funds from operations are included.

	2009	2008
Bank debt	$ 260,172	$ 219,853
Working capital deficiency [(1)]	101,482	42,275
Net debt	$ 361,654	$ 262,128
Cash provided by operating activities	$ 48,756	$ 47,416
Change in non-cash operating working capital	23,052	1,329
Asset retirement expenditures	354	1,330
Funds from operations – current quarter	$ 72,162	$ 50,075
Funds from operations – prior quarter	50,245	78,646
	$ 122,407	$ 128,721
	x 2	x 2
Annualized funds from operations	$ 244,814	$ 257,442
Ratio of net debt to annualized funds from operations	1.5	1.0

(1) Excludes unrealized gain on derivative contracts and future income tax liability.

The Trust also monitors the payout ratio to evaluate financial flexibility and the capacity to fund distributions. Payout ratio is defined on a percentage basis as distributions declared divided by funds from operations. Daylight believes that a payout ratio above 100% is a significant concern as it indicates that no funds from operations are being retained to finance capital expenditures or to repay debt. Daylight believes that a lower payout ratio corresponds to greater financial flexibility since the excess funds from operations can be invested in capital expenditures for the long-term benefit of Daylight or be utilized to repay debt and reduce the leverage utilized by Daylight. For the year ended December 31, 2009, the payout ratio was 55% compared to 44% for the year ended December 31, 2008 due to the decrease in funds from operations in 2009 due to lower commodity prices. In monitoring our business, Daylight also considers its total planned uses of funds, including both distributions and capital expenditures, as compared to funds from operations, available bank debt and other sources of funding.

	2009	2008
Distributions declared	$ 119,107	$ 117,017
Cash provided by operating activities	$ 189,437	$ 259,759
Change in non-cash operating working capital	20,198	861
Asset retirement expenditures	6,126	3,800
Funds from operations	$ 215,761	$ 264,420
Payout ratio	55%	44%

The Trust's unit capital is not subject to external restrictions; however, the bank debt facilities are based on petroleum and natural gas reserves (see note 6). The Trust's ability to raise new equity is limited by the safe harbour limit guidelines as announced by the Federal government. Daylight intends to propose to unitholders that Daylight convert to a dividend paying corporation following the Annual and Special Meeting in May 2010. There were no changes in the Trust's approach to capital management during the year ended December 31, 2009.

14. Related Party Transactions

Daylight and MOX are considered related parties, as Daylight's Chairman is a director and officer of MOX. In addition, Daylight's Chief Executive Officer and director is also a director of MOX and Daylight's Corporate Secretary is also MOX's Corporate Secretary. Daylight and MOX are joint venture partners in certain properties, and as a result, revenues and costs related to these properties are allocated to each partner under standard joint venture billing arrangements. Each partner's costs and revenues are based on the exchange amounts which reflect actual third party costs incurred and revenue received. All transactions are conducted under standard business terms and are considered within the normal course of Daylight's business activities and operations. In addition, certain administrative services which provide reasonable economy and do not involve competitive issues continue to be provided to MOX by Daylight Energy. These administrative services are provided on a fixed fee basis negotiated by the parties, which is considered comparable to the fee an independent third party would charge for the services, and may be cancelled by either party.

For the year ended December 31, 2009, Daylight charged MOX $0.7 million (2008 - $1.5 million) for premises costs with a payable balance, which included joint venture and commodity marketing amounts, of approximately $4.8 million due to MOX as at December 31, 2009 (2008 - $2.8 million). At December 31, 2009, MOX held an advance capital deposit of $3.2 million (2008 - $3.9 million) in conjunction with normal course oil and gas drilling activities.

On October 31, 2008, Daylight acquired from MOX certain petroleum and natural gas assets in the West Central area and entered a farmin arrangement on over 40 gross sections of land in the Elmworth and Peace River Arch areas in exchange for 3.75 million Daylight units and $2.0 million cash. Based on the exchange amount of $7.17 per unit, total consideration for the petroleum and natural gas assets was $28.9 million. The effective date of the purchase was October 1, 2008 and results from operations are included with those of the Trust commencing October 31, 2008. See note 5.

15. Commitments and Contingencies

The following is a summary of Daylight's contractual obligations and commitments as at December 31, 2009:

	2010	2011	2012	2013	2014	Thereafter
Operating leases	**$ 5,865**	$ 6,674	$ 7,387	$ 6,213	$ 6,187	$ 23,712
Natural gas transportation	**4,011**	2,794	1,251	739	121	-
Convertible debentures (face value)	**-**	-	53,737	74,980	-	-
Bank debt	**-**	260,172	-	-	-	-
	$ 9,876	$ 269,640	$ 62,375	$ 81,932	$ 6,308	$ 23,712

Included in operating leases are obligations related to office space and office equipment. In addition to the above, the Trust has commitments related to its risk management program (see note 13).

Daylight is involved in litigation and claims arising in the normal course of operations. Management is of the opinion that pending litigation will not have a material adverse impact on Daylight's financial position or results of operations.

16. Subsequent Event

On January 5, 2010, Daylight issued $172.5 million principal amount of 6.25% Convertible Unsecured Subordinated Debentures, Series D ("Series D Debentures") for net proceeds of $165.6 million. The Series D Debentures pay interest semi-annually on December 31 and June 30, commencing with the initial interest payment on June 30, 2010 and have a maturity date of December 31, 2014. The Series D Debentures are convertible at the option of the holder to trust units at a conversion price of $12.00 per trust unit. The Trust has the option to redeem the Series D Debentures at a price of $1,050 per Series D Debenture after December 31, 2012 and on or before December 31, 2013 and at a price of $1,025 per Series D Debenture after December 31, 2013 and before the maturity date of December 31, 2014 and on maturity at $1,000 per Series D Debenture. On redemption or maturity the Trust may elect to repay the principal and satisfy its interest obligations by issuing Daylight trust units.

CORPORATE INFORMATION

Board of Directors

Fred Woods (2) (4) (5)
Chairman
Daylight Energy Ltd.
President and Chief Executive Officer
Midnight Oil Exploration Ltd.
Calgary, Alberta

Anthony Lambert
President and Chief Executive Officer
Daylight Energy Ltd.
Calgary, Alberta

Dennis Chorney (1) (2) (3) (5)
Independent Businessman
Calgary, Alberta

Rick Orman (1) (3) (4) (5)
Chief Executive Officer
NOR Energy AS
Calgary, Alberta

A. Gordon Stollery
Chairman
AGS Resource Management Ltd.
Toronto, Ontario

Jeff Tonken (1) (2) (3) (4)
President and Chief Executive Officer
Birchcliff Energy Ltd.
Calgary, Alberta

David Tuer (1) (3) (4) (5)
Vice Chairman and Chief Executive Officer
Marble Point Energy Ltd.
Calgary, Alberta

Graham Wilson (1) (2) (4)
Independent Businessman
Vancouver, British Columbia

Members of the following Committees:

1 Audit
2 Reserves
3 Compensation
4 Corporate Governance
5 Environment, Health and Safety

Officers

Anthony Lambert
President and Chief Executive Officer

Steve Nielsen
Chief Financial Officer

Ted Hanbury
Executive Vice President

Brent Eshleman
Vice President, Engineering and Exploitation

Randy Ford
Vice President, Operations

Steve Horner
Vice President, Business Services

Pamela Kazeil
Vice President, Finance

Jerry Simpson
Vice President, Production

Chris von Vegesack
Corporate Secretary
Burnet, Duckworth & Palmer LLP

Bankers

Canadian Imperial Bank of Commerce
Bank of Nova Scotia
National Bank of Canada
Bank of Montreal
Toronto-Dominion Bank
BNP Paribas (Canada)
Alberta Treasury Branches
Union Bank, Canada Branch
HSBC Bank Canada

Legal Counsel

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

Auditors

KPMG LLP
Chartered Accountants
Calgary, Alberta

Evaluation Engineers

GLJ Petroleum Consultants Ltd.
Calgary, Alberta

Registrar and Transfer Agent

Valiant Trust Company
Calgary, Alberta

Stock Exchange Listing

The Toronto Stock Exchange
Trading Symbols: DAY.UN, DAY.DB.B, DAY.DB.C, DAY.DB.D

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RESOURCES TRUST

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Abbreviations

/d	per day
bbl(s)	barrel(s)
mbbls	thousand barrels
mmbbls	million barrels
mcf	thousand cubic feet
mmcf	million cubic feet
bcf	billion cubic feet
boe	barrels of oil equivalent
mmboe	million barrels of oil equivalent
mmbtu	million British thermal units
mmstb	million stock tank barrels of oil
Cdn	Canadian
GJ	gigajoules
NGLs	natural gas liquids
WTI	West Texas Intermediate crude oil
US	United States

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